

State of
Utah
COMPREHENSIVE
ANNUAL FINANCIAL
REPORT



For the Fiscal Year Ended June 30, 2003

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2003

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the State of Utah conform in all material respects with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board. Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

A. Reporting Entity

For financial reporting purposes, the State of Utah reporting entity includes the "primary government" and its "component units." The primary government includes all funds, agencies, boards, commissions, and authorities that are considered an integral part of the State's activities. The State's component units are legally separate organizations for which the State's elected officials are financially accountable.

The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and either: 1) the ability of the State to impose its will on that organization or; 2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State. Where the State does not appoint a voting majority of an organization's governing body, GASB standards require inclusion in the reporting entity if an organization is fiscally dependent on the State or the relationship is such that it would be misleading to exclude it.

Except where noted below, the State's component units issue their own separate audited financial statements as special-purpose governments engaged only in business-type activities. These financial statements can be obtained from their respective administrative offices or from the Utah State Auditor's Office, 211 State Capitol, Salt Lake City, UT 84114.

Entities such as the local school districts and local authorities of various kinds that may only partially meet the criteria for inclusion in this report have not been included. (The State's support of the public education system is reported in the Uniform School Fund, a special revenue fund.)

Blended Component Units

Blended component units are entities which are legally separate from the State but which are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the primary government and blended into the appropriate funds.

Utah State Building Ownership Authority (blended with the primary government's debt service and capital projects funds) — The Authority was created by the Legislature as a body politic and corporate for the purpose of financing, owning, leasing and operating facilities to meet the needs of state government. It is comprised of three members: the Governor or designee, the State Treasurer and the Chair of the State Building Board. Separate financial statements are not required or issued for the Authority.

Discrete Component Units

Discretely presented component units are reported in a separate column and/or rows in each of the government-wide statements to emphasize that they are legally separate from the State. The Governor appoints at least a majority of the governing board members of each of the State's component units, subject in most cases to approval by the Senate. The Utah Housing Corporation is included in the reporting entity because of its ability to issue moral obligation debt of the State and low-income housing tax credits. The other component units are included in the reporting entity because under the criteria established by GASB, the State has the ability to impose its will on these organizations. The colleges and universities, the Public Employees Health Program and the Comprehensive Health Insurance Pool are included as component units due to the level of oversight provided by the State. The Governor-appointed board members of the remaining component units can be replaced at will.

The State's major discrete component units are:

- Utah Housing Corporation — The Corporation issues bonds to provide capital for housing and home mortgages, especially for low and moderate income families. Operations are financed from bond proceeds and from mortgage and investment interest and fees.
- Public Employees Health Program — This Program provides employee medical and other insurance services predominantly for agencies of the State. It also provides claims processing and insurance services for other public entities within Utah. In prior years, the Program was reported as an internal service fund of the State. However, the Program was reevaluated and is now considered more appropriately reported as a discrete component unit. The Program is administered by the Utah State Retirement Board.
- University of Utah and Utah State University — These universities are funded through state appropriations, tuition, federal grants, and private donations and grants. In addition to instruction, these universities provide research and other services. The operations of the University of Utah also include its hospital and clinics.

The State's nonmajor discrete component units are:

- Comprehensive Health Insurance Pool — The Pool is a nonprofit quasi-governmental entity established within the State Insurance Department. It provides access to health insurance coverage for residents of the State who are considered uninsurable.
- Heber Valley Historic Railroad Authority — The Authority is an independent state agency which maintains and operates a scenic and historic railroad in and around the Heber Valley. The Authority has a separate compilation report, but separate audited financial statements are not required or issued for it.
- Utah State Fair Corporation — This is a nonprofit public corporation that operates the State Fair Park and conducts the Utah State Fair and other various expositions and entertainment events. It receives state appropriations for operations and working capital.

- **Utah Science Center Authority** — The Authority is an independent state agency created to provide a means to foster the development of science, arts, tourism, and cultural and educational facilities. The Authority currently functions as an advisory board to other organizations. It had expended its net assets as of June 30, 2003, and is not expected to have any financial activity in the future. Separate audited financial statements are not required or issued for the Authority.
- **Utah Technology Finance Corporation** — This independent corporation encouraged and assisted in the growth of technological and small businesses. The Corporation's enabling legislation was repealed and the Corporation transferred its remaining liquidation proceeds to the State before the Corporation's final dissolution on June 30, 2003.
- **Colleges and Universities** — Weber State University, Southern Utah University, Salt Lake Community College, Utah Valley State College, Dixie State College of Utah, College of Eastern Utah, Snow College, and the College of Applied Technology. Separate audited financial statements are not required or issued for the College of Applied Technology; however, its significant branch campuses each issue separate audited financial statements.

Fiduciary Component Units

Utah Retirement Systems (pension trust funds) — Utah Retirement Systems administers pension funds for various public employee retirement systems and plans of the State and its political subdivisions. Utah Retirement Systems is an independent state agency subject to legislative and executive department budgetary examination and comment. The Utah State Retirement Board, a seven-member board is established by statute to administer the systems and plans, and to serve as investment trustees of the funds. Six members are appointed by the Governor with the advice and consent of the Senate, while the State Treasurer serves as the seventh member. Because of the State's trustee responsibilities for these systems and plans, GAAP requires them to be reported as pension trust funds of the primary government rather than discrete component units. In accordance with GAAP, fiduciary funds and component units that are fiduciary in nature are excluded from the government-wide financial statements.

Related Organization (Excluded from Financial Statements)

Workers' Compensation Fund — This fund is a nonprofit quasi-public corporation created by the Legislature for a public purpose that provides workers' compensation insurance to private and public employers. The Governor appoints six of the Fund's seven board of directors, but the State's financial accountability for the Fund does not extend beyond making the appointments.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities report information on all nonfiduciary activities of the primary government and its component units. Primary government activities are distinguished between *governmental* and *business-type* activities.

Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Net Assets presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are restricted when constraints placed upon them are either externally imposed or are imposed by constitutional provisions or enabling legislation.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. The State does not allocate general government (indirect) expenses to other functions. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other revenues not meeting the definition of program revenues are reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. For governmental and proprietary funds financial statements, the emphasis is on major individual governmental and enterprise funds, with each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds are also aggregated and reported in a separate column on the proprietary funds financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-wide Financial Statements

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the related liability is incurred, regardless of the timing of the cash flows. Nonexchange transactions, in which the State receives value without directly giving equal value in exchange, include taxes, grants, and donations. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been met.

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or expected to be collected soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers taxes and other revenues to be available if the revenues are collected within 45 days after yearend. An exception to this policy is federal

grant revenues, which generally are considered to be available if collection is expected within 12 months after yearend.

Expenditures are generally recorded when the related liability is incurred, as under the accrual basis of accounting. However, expenditures for principal and interest on long-term debt are recorded when due or when amounts have been accumulated in the debt service fund for payments of interest to be made early in the following year. Also, expenditures and related liabilities for compensated absences, postemployment benefits, and claims and judgments are recorded only to the extent they have matured (come due for payment).

Major Governmental Funds — The State reports the following major governmental funds:

- **General Fund.** This fund is the principal operating fund of the State. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- **Uniform School Fund.** This special revenue fund accounts primarily for revenues and expenditures that support public elementary and secondary schools in the State.
- **Transportation Fund.** This special revenue fund accounts for revenues and expenditures associated with highway construction and maintenance.
- **Centennial Highway Fund.** This special revenue fund was created by the Legislature to account for specific highway projects.
- **Trust Lands Fund.** This is a permanent fund that accounts for land grants and the sale of such lands received from the federal *Enabling Act*. The principal in the fund is perpetual, with the earnings used primarily to support public education.

Nonmajor Governmental Funds — The State's nonmajor governmental funds include other special revenue funds, capital projects funds, and debt service funds. The nonmajor special revenue funds account for specific revenue sources that are legally restricted to expenditures for specific purposes. Examples include tobacco settlement monies, environmental activities, crime victim reparations and rural development programs. The capital projects funds account for the resources used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds. The debt service funds account for resources used for the payment of interest and principal on general long-term debt obligations.

Proprietary Fund Financial Statements

The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Proprietary funds include both enterprise and internal service fund types. Enterprise funds report the activities for which fees are charged to external users for goods or services. Internal service funds account for goods and services provided primarily to other agencies or funds of the State, rather than to the general public.

The proprietary funds follow all GASB pronouncements and all Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition, such as subsidies and investment earnings, are reported as nonoperating.

Major Enterprise Funds — The State reports the following major enterprise funds in its proprietary fund statements:

- **Student Assistance Programs.** These programs make loans to, and purchase loans of, qualified students attending eligible higher education institutions. The programs also guarantee the repayment of student loans made by participating lenders to eligible students.
- **Unemployment Compensation Fund.** This fund pays claims for unemployment to eligible recipients.
- **Water Loan Programs.** This fund provides loans to local governments, water districts, and other entities for the purpose of upgrading water storage facilities and other related structures.

Nonmajor Enterprise Funds — The State's nonmajor enterprise funds include loan programs for communities, low-income housing, agricultural and other purposes; Alcoholic Beverage Control (state liquor stores); Utah Correctional Industries; State Trust Lands Administration; and the Utah Dairy Commission.

Internal Service Funds — The State also reports the internal service fund type in the proprietary funds statements. The activities accounted for in internal service funds include information technology, fleet operations, risk management, copy and mail services, debt collection, and property management. In the government-wide financial statements, internal service funds are included with governmental activities.

Fiduciary Fund Financial Statements

The fiduciary funds account for assets held by the State in a trustee capacity or as an agent for other individuals or organizations. The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The following fiduciary fund types are reported:

Pension Trust Funds — These funds account for the transactions, assets, liabilities, and fund equity of the retirement systems and plans administered by Utah Retirement Systems.

Investment Trust Fund — This fund is used to account for the investments related to external participants in the Utah State Public Treasurer's Investment Fund.

Private Purpose Trust Funds — These funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations or other governments. Examples

include the Utah Navajo Nation Trust, Unclaimed Property Trust, Employers' Reinsurance Trust, Petroleum Storage Tank Trust, and the Utah Education Savings Plan Trust.

Agency Funds — These funds account for assets held by the State as an agent for other governmental units, other organizations, or individuals. These funds include fines, forfeitures, tax collections, and withholding taxes for employees.

Component Unit Financial Statements

The combining component unit financial statements are presented in order to provide information on each of the major component units included in the component unit's column of the government-wide statements. The component unit financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The information is presented in order to be consistent with the government-wide statements, and is less detailed than the presentation in each component unit's separately issued financial statements. The component units follow all GASB pronouncements, and all FASB pronouncements issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. In addition, as allowed by GASB standards, the Public Employees Health Program has elected to apply all applicable FASB pronouncements issued after November 30, 1989, that do not conflict with GASB standards.

D. Fiscal Year Ends

All funds and discretely presented component units are reported using fiscal years which end on June 30, except the pension trust funds (fiduciary funds) and the Utah Dairy Commission (a nonmajor enterprise fund), which have fiscal years ending December 31.

E. Assets, Liabilities, and Net Assets/Fund Balances

Cash and Cash Equivalents and Investments

Cash and investment management in the State is administered by the State Treasurer in accordance with the Money Management Act, Section 51–7 of the *Utah Code*. The Act specifies the investments that may be made, which are only high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. The investments include variable rate corporate notes and obligations of U.S. government agencies which base their rates on standard quoted money market indexes that have a direct correlation to the federal funds rate and, therefore, there is very little market risk because the investments follow the normal swings of interest rates. The Utah Housing Corporation and Public Employees Health Program (component units), and the Pension Trust Funds are exempt from the Act; however, they are governed statutorily by the prudent man rule. The Pension Trust Funds are invested in domestic and international equities and fixed income, corporate and government bonds, short-term securities, real estate and real estate mortgages, joint ventures, and venture capital.

- Cash equivalents are generally considered short-term, highly liquid investments with a maturity of three months or less from the purchase date. The Student Assistance Programs (enterprise fund) use a trustee for their long-term investing

needs, and they consider any cash and cash equivalents held by their trustee as investments.

- All cash deposited with the State Treasurer by state entities is maintained by the Treasurer in various pooled investment funds. The State Treasurer invests the deposited cash, including the cash float, in short-term securities and other investments. All interest revenue is allocated to the General Fund unless state law or trust agreements require allocations of interest to other funds. Funds authorized to receive interest earnings are segregated into separate investment pools, and interest is allocated based on cash balances in the pool.
- Investments (including cash equivalents) are under the control of the State Treasurer or other administrative bodies as determined by law. In certain instances, investments may be restricted by law or other legal instruments. Investments are presented at fair value. The fair value of investments is based on published prices and quotations from major investment brokers at current exchange rates, as available. For investments where no readily ascertainable fair value exists, management, in consultation with their investment advisors, have determined the fair values for the individual investments. Investments held as security deposits which are not held for investment purposes are carried at cost. The Utah Retirement Systems (pension trust funds) mortgages are valued on an amortized cost basis which approximates fair value, and the fair value of real estate investments has been estimated based on independent appraisals.
- The State's Unemployment Compensation Fund (enterprise fund) monies are required by the Social Security Act to be invested in the U.S. Department of Treasury, Bureau of Public Debt Unemployment Trust Fund (BPDUTF), which is not registered with the SEC. The fair value of the position in the BPDUTF is the same as the value of the BPDUTF shares.
- Utah Retirement Systems (pension trust funds) held two types of derivative financial instruments at yearend: futures and currency forwards. Futures contracts are traded on organized exchanges to minimize credit risk. Currency forwards are entered into in order to hedge the exposure to changes in foreign currency exchange rates on foreign currency dominated portfolio holdings. Utah Housing Corporation (major component unit) enters into various rate swap contracts in order to increase funding capabilities. The Corporation sells variable rate bonds and minimizes the inherent risk with the use of floating-to-fixed interest rate swap contracts. See Note 3 for additional information about derivatives.

Receivables

Accounts receivables in the governmental and business-type activities consist mainly of amounts due from the Federal Government, customers, and others. Receivables from the Federal Government are reasonably assured; accordingly, no allowance for uncollectible accounts has been established.

Notes/mortgages receivable for governmental and business-type activities are primarily long-term loans for local governments and agricultural development, home mortgages, and individual student loans. The interest rates on the loans vary but are generally lower than market rates and, in some cases, are non-interest bearing.

Student loans in the Student Assistance Programs (business-type activities) are fixed and variable rate federally insured loans. Student loans are insured at 95 to 100 percent of their principal balance depending on the date disbursed.

Accrued taxes include receivables for taxpayer-assessed taxes where the underlying exchange has occurred in the period ending June 30 or prior, net of applicable estimated refunds and allowances.

Note 5 provides a disaggregation of governmental and business-type receivables, including a breakout of current/noncurrent balances and established allowances.

Inventories and Prepaid Items

Proprietary funds and component units inventories are valued at the lower of cost or market. Cost evaluation methods include first-in-first-out (FIFO), last-in-first-out (LIFO), average cost, weighted average, weighted moving average, and retail inventory method.

Governmental fund inventories are recorded as expenditures when purchased except for the following which are recorded as expenditures when consumed: inventories for the Transportation Fund, and food stamps coupon inventories in the General Fund. Transportation Fund inventories are valued using a weighted average cost.

Prepaid items related to governmental funds are immaterial and recorded as expenditures in the governmental funds financial statements when paid.

Capital Assets

Capital assets, which include land, buildings, equipment, and infrastructure (roads, bridges, drainage systems, lighting systems, and similar items), are reported in the applicable governmental or business-type activities columns, or in the component units column on the government-wide Statement of Net Assets. Capital assets of proprietary funds and fiduciary funds are also recorded in their respective fund statements. Capital assets are defined by the State as assets, which cost \$5 thousand or more when acquired and have an estimated useful life greater than one year. Purchased or constructed capital assets are recorded at cost or at estimated historical cost where historical cost is not available. Donated fixed assets are valued at their estimated fair value at the date of donation.

Capital assets purchased by governmental funds are recorded as expenditures in the governmental fund financial statements. Interest expense for capital asset construction related to governmental activities is not capitalized. Interest expense incurred during construction of capital facilities related to business-type activities and component units is immaterial and is not capitalized in all cases.

Buildings, equipment, and other depreciable assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Years</u>
Equipment	3-15
Aircraft and Heavy Equipment	5-30
Buildings and Improvements	30-40
Land Improvements	5-20
Infrastructure	15-80

As provided by GASB standards, the State has elected to use the "modified approach" to account for infrastructure assets (roads and bridges) maintained by the State's Department of Transportation. Under this approach, depreciation expense is not recorded and only improvements which expand the capacity or efficiency of an infrastructure asset are capitalized. Using this approach requires the State to: 1) maintain an inventory of the assets and perform periodic condition assessments; 2) estimate each year the annual amount to maintain and preserve the assets at the condition level set by the State; and 3) document that the assets are being preserved approximately at or above the condition level set by the State.

Most works of art and historical treasures are not capitalized or depreciated. These assets are held for public exhibition, education, or research rather than financial gain. These assets are also protected, unencumbered, and preserved and subject to policies requiring the proceeds from sales of collection items to be used to acquire other collection items. The State's assets of this nature include the State Fine Art Collection, photographs, prints, paintings, historical documents and artifacts, monuments, statues, and paleontological and archaeological collections.

Accrued Liabilities

Accrued liabilities include the liability for employee payrolls and liabilities accruing over time where demand for payment is due shortly after fiscal yearend. See Note 6 for additional information about accrued liabilities.

Deferred Revenue

In the government-wide statements, proprietary fund statements, and fiduciary fund statements, deferred revenue is recorded when cash or other assets are received prior to being earned. In the governmental fund statements, deferred revenue is recorded when revenue is either unearned or unavailable. Deferred revenues for the Student Assistance Programs (enterprise fund) are primarily guarantee fees which are recognized as income over a period of ten years using the sum-of-the-years-digits method.

Policy Claims Liabilities

Policy claims liabilities are for insurance claims incurred prior to the reporting date and are based on actuarial estimates. Policy claims liabilities for Unemployment Insurance are for claims filed as of the reporting date.

Long-term Liabilities

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the bonds outstanding method or straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges (assets).

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the

current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The *Tax Reform Act of 1986* requires governmental entities issuing tax-exempt bonds to refund to the U.S. Treasury interest earnings on bond proceeds in excess of the yield on those bonds. Governmental entities must comply with arbitrage rebate requirements in order for their bonds to maintain tax-exempt status. Entities are required to remit arbitrage rebate payments to the federal government at least once every five years over the life of the bonds. Some State of Utah bonds may be exempt from the rebate requirements if they meet certain statutory exceptions per the regulations.

Arbitrage liability is treated as an expense in the government-wide Statement of Net Assets and the proprietary fund financial statements when the liability is recognized. Arbitrage liability is recorded as an expenditure in the governmental funds financial statements when the liability is due. At June 30, 2003, the total estimated arbitrage rebate liability in the Student Assistance Programs (enterprise fund) was \$52.884 million, of which \$48.413 million represents yield reduction payments and \$4.471 million represents the estimated liabilities for non-purpose interest. Other arbitrage liabilities are immaterial.

Compensated Absences and Leave/Postemployment Benefits

Employees' vacation leave is accrued at a rate of four hours every two weeks for the first five years of employment, and grows to a rate of seven hours every two weeks after 20 years of employment. There is no requirement to use vacation leave, but a maximum of 40 days may be carried forward at the beginning of each calendar year. Unused vacation leave is paid to employees upon termination.

Employees earn sick leave at a rate of four hours for each two week period, with no limit to the amount that can be accumulated. The State does not reimburse employees for unused sick leave upon termination except employees eligible for retirement. Sick leave is expended when used. At retirement, for participating agencies, the State will pay an employee up to 25 percent of the employee's accumulated sick leave and will pay for premiums to maintain health and life insurance coverage for up to five years or until the employee turns age 65, whichever comes first. The employee may use any remaining sick leave balances to acquire health insurance to age 65, and since fiscal year 1999, health insurance for the employee's spouse until they reach age 65, and Medicare supplement insurance after age 65 for both the employee and their spouse. An estimate of the liability for the above leave and retirement benefits has been recorded in the governmental activities column of the government-wide Statement of Net Assets.

The State maintains compensated absences and postemployment benefit pools within the General Fund, Uniform School Fund, and Transportation Fund. The ongoing payments from the pools are provided by charges to agency budgets as benefits are earned. Vacation leave taken as time off is paid from current budgets when used. Payment of leave balances at termination and payment of postemployment benefits are made from the compensated absences and postemployment benefit pools. Proprietary funds and private

purpose trust funds of the primary government also participate in the pools and have no liability for leave or postemployment benefits once their contributions to the pools have been made.

The total liability of the governmental activities for vacation leave and postemployment benefits is recorded in the government-wide Statement of Net Assets. However, in accordance with GAAP, the liability is not recorded in the governmental funds financial statements. See Notes 10 and 18 for additional information about the liability.

Compensatory time for overtime worked may be earned up to a maximum of 80 hours. Any overtime exceeding 80 hours is paid when earned. In accordance with GAAP, compensatory time is expended when the leave is taken in governmental funds, but is expensed when earned for budgetary purposes.

Vacation earnings, sick leave earnings, and postemployment benefits policies vary slightly among component units and from the primary government's policies. Vacation leave is expended when earned and sick leave is expended when used.

Net Assets/Fund Balances

The difference between assets and liabilities is "Net Assets" on the government-wide, proprietary fund, and fiduciary funds financial statements, and "Fund Balance" on the governmental fund financial statements.

In the governmental fund financial statements, fund balances are classified as reserved, designated, or unreserved. Reserves represent those portions of fund balance not appropriate for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

F. Revenues and Expenditures/Expenses

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources are available, it is the State's general policy to use restricted resources first. However, the State has some programs that are funded by appropriations from both unrestricted resources and resources required by law to be deposited in a specific subfund for a specific purpose (which may include restricted resources). In those instances, it is the State's policy to expend those resources proportionally based on the amounts appropriated from each source.

Grants

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when entitlement occurs. All federal reimbursement-type grants are recorded as revenues when the related allowable expenditures are incurred and all applicable eligibility requirements are met.

Federal grants include nonmonetary transactions for food and other commodities, and food stamps. Commodities revenue and expenditures are valued at their federally reported value. Commodity inventories at yearend are immaterial. For the fiscal

year ended June 30, 2003, the State reported revenue and expenditures of \$92.893 million for food assistance programs and \$6.944 million for commodities in the General Fund, and \$12.2 million for commodities in the Uniform School Fund (special revenue fund).

Investment Income

Investment income includes interest, dividends and other earnings, and the change in fair value of investments. Negative investment income is reported where the decrease in the fair value of investments due to market conditions exceeded the other components of investment income.

In accordance with state law, interest and dividend income from investments in the Trust Lands permanent fund and the Tobacco Endowment Fund (nonmajor governmental fund) is assigned to and reported directly in the Uniform School Fund and the General Fund, respectively. One half of the applicable income reported in the General Fund is then transferred back into the Tobacco Endowment Fund to increase the principal in the fund as required by state law.

Retirement and Employee Benefit Costs

Most state employees participate in a pension system and/or plan administered by Utah Retirement Systems. Contributions collected for the pension systems and plans and the retirement benefits paid are both accounted for in the Pension Trust Funds. All costs for pension, health, and federal social security contributions in governmental fund types are reported as expenditures in the appropriate function. Benefit costs applicable to proprietary fund types are reflected as expenses in the proprietary funds.

G. Interfund Transactions

Government-wide Financial Statements

Interfund Activity — In general, eliminations have been made to minimize the double-counting of internal activity, including internal service fund type activity. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. Operating transfers between governmental and business-type activities are reported at the net amount.

Interfund Balances — Interfund receivables and payables have been eliminated from the government-wide Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Governmental Fund Financial Statements

Interfund Activity — Interfund transactions for goods sold or services rendered for a price approximating their external exchange value, and employee benefit contributions are accounted for as revenues and expenditures/expenses in the funds involved.

Transfers are used to report flows of cash (or other assets) between funds without equivalent flows of assets in return or a requirement

for repayment. The State's transfers are based on legislative appropriations or other legal authority. Transfers are presented in Note 13.

NOTE 2. BEGINNING NET ASSET ADJUSTMENTS

As discussed in Note 1.A, the Public Employees Health Program (PEHP) was reevaluated and is now reported as a discrete component unit. It was previously reported as an internal service fund. As a result of this change, a reclassification of \$60.28 million was made to reduce beginning net assets of internal service funds and increase beginning net assets of component units. PEHP amounts included in the governmental activities on the prior year Statement of Net Assets and Statement of Activities included the following: \$158.873 million total assets; \$98.593 million total liabilities; \$152.535 million total revenues; and, \$139.482 million total expenses.

Adjustments to beginning net assets of governmental activities reported on the Statement of Net Assets resulted in a net increase of \$117.753 million. The adjustments increased infrastructure and construction-in-progress capital assets for prior year payments that should have been capitalized rather than expensed. The adjustments also reduced the recorded amount of a building and made miscellaneous corrections to project costs included in construction-in-progress. Had these changes been made in the prior year, the effect on governmental activities on the prior year Statement of Activities would have been as follows: \$131.615 million reduction in expenses, and \$13.862 million reduction in beginning net assets. The effects of these adjustments on beginning amounts reported for each component of capital assets is described in Note 8. Also, the method of classifying the net asset balances on the government-wide Statement of Net Assets was adjusted to more accurately match assets with their associated debt. The impact of this classification change on prior year net assets of governmental activities would have been to increase unrestricted net assets and decrease invested in capital assets, net of related debt by \$95.785 million.

An adjustment was made to reduce beginning net assets of the University of Utah (component unit) by \$16.784 million for construction of a building that was determined not to be an asset of the University.

NOTE 3. DEPOSITS AND INVESTMENTS

Listed below is a summary of the deposit and investment portfolio that represents the cash and cash equivalents and investments on the June 30, 2003, balance sheet. Investing is governed by the prudent man rule, in accordance with the Money Management Act, Section 51-7, Utah Code Annotated, 1953, as amended. Except certain repurchase agreements, all securities of the primary government purchased or held and all evidence of deposits and investments must be in the custody of the State, or may be held by an agent in the State's name. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of investment securities.

A. Deposits

At June 30, 2003, the carrying amount of the State's deposits for the primary government was \$593.911 million and \$109.141 million for

the component units. At June 30, 2003, the bank balance was \$75.067 million and \$127.268 million for the primary government and component units, respectively. Of the bank balance for the primary government, \$3.449 million was covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral held by the State's agent in the name of the State. Of the bank balance for the component units, \$3.572 million was covered by the FDIC or by collateral held by their agent in the name of the component unit. The remaining deposits for the primary government and component units were uninsured and uncollateralized and were held by various financial institutions. The State of Utah does not require collateral on deposits. However, the State Commissioner of Financial Institutions monitors financial institutions monthly and establishes limits for the deposit of public money at individual financial institutions.

B. Investments

Statutes authorize the State to invest in negotiable and non-negotiable certificates of deposit; repurchase and reverse repurchase agreements; commercial paper; bankers' acceptances; obligations of the U.S. Treasury and certain agencies of the U.S. Government;

corporate obligations; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; shares or certificates in open-end managed money market mutual funds; and various other investments. Authorized investments are subject to certain restrictions. Certain state agencies and component units are also allowed by statute to invest in investment contracts, equity securities, real estate, and other investments. In addition to investments authorized by statute, bond proceeds are invested in other investments in accordance with the applicable bond resolutions. Investment types for Pension Trust Funds and certain other funds and component units are not restricted by state statute.

The following table provides information about the credit and market risks associated with the State's investments. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent, but not in the State's name.

Credit and Market Risks of Investments – Primary Government (Expressed in Thousands)

	Category			Fair Value
	1	2	3	
Repurchase Agreements	\$ —	\$ 183	\$ 59,774	\$ 59,957
U.S. Government Securities	495,294	4,132	—	499,426
Negotiable Certificates of Deposit	165,285	—	—	165,285
Commercial Paper	2,985	—	—	2,985
Corporate Bonds and Notes	7,541,538	—	—	7,541,538
Equity Securities	5,992,166	—	—	5,992,166
Total	<u>\$ 14,197,268</u>	<u>\$ 4,315</u>	<u>\$ 59,774</u>	14,261,357
Mutual and Escrow Funds				2,231,451
Investment Contracts				57,035
Investment in U.S. Treasury Investment Pool				405,095
Component Units Investment in Primary Government's Investment Pool				(477,894)
Real Estate				467,429
Real Estate Mortgages				3,984
Real Estate Joint Ventures				657,747
Venture Capital				761,986
Investments Held by Broker-Dealers Under Securities Lending Program:				
U.S. Government Securities				473,739
Equity Securities				768,499
Corporate Bonds and Notes				138,925
Securities Lending Short-term Collateral Investment Pool				1,418,572
Total Investments				<u>\$ 21,167,925</u>

The Pension Trust Funds own approximately 61 percent of the investments that are in Category 1.

Credit and Market Risks of Investments – Component Units
(Expressed in Thousands)

	Category			Fair Value
	1	2	3	
Repurchase Agreements	\$ —	\$ —	\$ 20,226	\$ 20,226
U.S. Government Securities.....	208,874	197,430	19,637	425,941
Negotiable Certificates of Deposit.....	1,765	—	—	1,765
Corporate Bonds and Notes	29,538	827	11,734	42,099
Equity Securities.....	20,729	12,891	13,829	47,449
Municipal and Public Utility Bonds	558	—	1,272	1,830
Total.....	<u>\$ 261,464</u>	<u>\$ 211,148</u>	<u>\$ 66,698</u>	<u>539,310</u>
Mutual and Escrow Funds				602,360
Investment Contracts				349,430
Investment in Primary Government's Investment Pool				477,894
Real Estate				3,552
Investments Held by Broker-Dealers Under Securities Lending Program:				
Equity Securities.....				23,856
Securities Lending Short-term Collateral Investment Pool				17,523
Total Investments.....				<u>\$ 2,013,925</u>

C. Securities Lending

The Utah Retirement Systems (pension trust funds) and the Public Employees Health Program (component unit) participate in security lending programs as authorized by their Boards. The types of securities lent are U.S. government securities, equity securities, and corporate bonds and notes. Under these programs, securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash, government securities, and irrevocable bank letters of credit equal to 102 percent of the market value of the domestic securities on loan and 105 percent of the market value of the international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. There are no restrictions on the amount of loans that can be made. For both state entities, their custodial bank is the agent for its securities lending program. Securities under loan are maintained in both state entities' financial records and are classified in the following summary of custodial risk. Corresponding liabilities for collateral received are recorded at the fair value.

At yearend neither the Utah Retirement Systems nor Public Employees Health Program had any credit risk exposure to borrowers because the collateral exceeded the amount borrowed. The securities on loan at yearend for the entities were \$1.381 billion and \$23.856 million, respectively, and the collateral received for those securities on loan was \$1.419 billion and \$24.543 million, respectively, with carrying amount and fair value being the same. Under the terms of the lending agreement, both state entities are indemnified against loss should the lending agent be unable to recover borrowed securities and distributions due to borrower insolvency or failure of the lending agent to properly evaluate the creditworthiness of the borrower. In addition, they are indemnified against loss should the lending agent fail to demand adequate and appropriate collateral on a timely basis. All securities loaned can be

terminated on demand by either the state entity or the borrower. Cash collateral is invested in the lending agent's short-term investment pool. The short-term investment pool guidelines specify that a minimum of 20 percent of the invested cash collateral is to be available each business day and that the dollar weighted average maturity of holdings should not exceed 60 days. The relationship between the maturities of the short-term investment pool and each of the state entities' loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the state entities cannot determine. Since the securities lending collateral is in a pool maintained by the custodial bank, the state entities do not have the ability to pledge or sell the securities, and it is not necessary to report the total income and expenses of securities lending.

D. Derivative Financial Instruments

Utah Retirement Systems

The Utah Retirement Systems (pension trust funds) invests in derivative financial investments as authorized by Board policy. The derivatives held by the Systems are reported at their fair values on the statement of net assets and are not subject to the disclosures now required by GASB Technical Bulletin No. 2003-1. As of yearend, the Systems had three types of derivative financial instruments: futures, currency forwards, and options.

Futures represent commitments to purchase (asset) or sell (liability) securities or money market instruments at a future date and at a specific price. Futures contracts are traded on organized exchanges (exchange traded), thereby minimizing the Systems' credit risk. The net change in the futures contract value is settled daily in cash with the exchanges. Net gains or losses resulting from the daily settlements are included with trading account securities gains

(losses) in the Statement of Changes in Net Assets. At yearend the Systems' investments had the following futures balances (expressed in millions):

	Value Covered By Contract
Long-equity futures.....	\$ 91.832
Short-equity futures.....	\$ (37.303)
Long-debt securities futures.....	\$ 148.482
Short-debt securities futures.....	\$ (255.009)

Currency forwards represent forward foreign exchange contracts that are entered into in order to hedge the exposure to changes in foreign currency exchange rates on the foreign currency dominated portfolio holdings. A forward foreign exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. The gain or loss arising from the difference between the original contracts and the closing of such contracts is included in net realized gains or losses on foreign currency related transactions. At yearend the Systems' investments included the following currency forwards balances (expressed in millions):

Currency forwards (<i>pending foreign exchange purchases</i>)	\$ 547.130
Currency forwards (<i>pending foreign exchange sales</i>)	\$ (544.384)

Options represent or give buyers the right, but not the obligation, to buy or sell an asset at a preset price over a specific period. The option's price is usually a small percentage of the underlying asset's value. As a writer of financial options, the Systems receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. As a purchaser of financial options, the Systems pay a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of

the financial instrument underlying the option. At yearend the Systems' investments had the following options balances (expressed in thousands):

	Value Covered By Contract
Cash and cash equivalent purchased put options	\$ (486)
Cash and cash equivalent purchased call options.....	\$ (665)
Fixed income written put options.....	\$ (258)
Fixed income written call options.....	\$ (2,245)

Utah Housing Corporation

The following are disclosures for derivative financial instruments held by Utah Housing Corporation (major component unit) as required by GASB Technical Bulletin No. 2003-1.

Objective — In order to protect against the potential of rising interest rates, the Corporation has entered into 34 separate pay-fixed, receive-variable interest rate swaps as of June 30, 2003. The cost of these swaps is less than what the Corporation would have paid to issue fixed rate debt. The Corporation's swaps are all similar in nature and summary information is included in this report. More detailed information about each swap is included in the Corporation's separately issued financial statements.

Terms, Fair Values, and Credit Risk — The terms, including the fair values and credit ratings of the outstanding swaps as of June 30, 2003, are summarized below. The notional amounts of the swaps match the principal amounts of the associated debt at the time of issuance. Except as discussed under rollover risk, the Corporation's swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the associated bonds payable.

Utah Housing Corporation Terms, Fair Values, and Credit Risk June 30 2003 (Expressed in Thousands)

Outstanding Notional Amount	Issue Dates	Fixed Rate Paid by the Corporation	Variable Rate Received from Counterparty	Fair Values	Swap Termination Dates
\$ 106,350	2000–2002	4.640% to 7.760%	LIBOR* plus .15%	\$ (15,800)	2006–2019
\$ 252,780	2000–2003	3.939% to 5.610%	BMA** plus .27%	\$ (40,798)	2018–2027

* London Interbank Offered Rate

** The Bond Market Association Municipal Swap Index

Fair Values — Because interest rates have declined, all swaps had a negative fair value to the Corporation as of June 30, 2003. The negative fair values are a function of declining interest rates and the remaining term on the swap contracts. Because the coupons on the Corporation's variable rate bonds adjust to changing interest rates, the bonds do not have corresponding fair value increases. However, bond proceeds were used to acquire fixed rate mortgage loans, which support the fixed payer rate on the swaps. Although these mortgage loans do have higher than current market interest rates, they have not been adjusted for fair value on the financial statements.

The fair values of the swap contracts were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swaps.

Credit Risk — As of June 30, 2003, the Corporation was not exposed to credit risk on any of its outstanding swaps because the swaps had negative fair values. However, should interest rates change and the fair values of the swaps become positive, the Corporation would be exposed to credit risk in the amount of the derivatives' fair value. The Corporation executes swap transactions with one counterparty, Lehman Brothers Financial Products, Inc. That Counterparty is rated AAA/Aaa.

Basis Risk — The Corporation's tax-exempt variable-rate bond coupon payments are equivalent to the BMA rate. Its taxable variable-rate bond coupon payments are equivalent to the LIBOR rate. The Corporation is therefore not exposed to basis risk except as disclosed below under the tax risk.

Tax Risk — Nineteen of the Corporation's BMA based swaps are exposed to basis risk should Congress or other federal branches of government propose or pass legislation (a "Tax Event"), that causes the relationship between LIBOR and BMA to exceed 75 percent for a continuous period of 180 days. If these two triggers occur, the result would be that the swap provider would pay the Corporation 68 percent of the LIBOR rate regardless of what the BMA rate is. As of June 30, 2003, no "Tax Event" has occurred.

Termination Risk — The Corporation or the counterparty may terminate any of the swaps if the other party fails to perform under the terms of the contract.

Rollover Risk — The Corporation is exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, or in the case of the termination option, the Corporation will not realize the synthetic rate offered by the swaps on the underlying debt issues. As of June 30, 2003, the Corporation's swap termination dates ranged from 7 to 24 years prior to the maturity dates of the associated debt.

NOTE 4. INVESTMENT POOL

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF) investment pool. The PTIF is available for investment of funds administered by any Utah public treasurer. Participation is not required and no minimum balance or minimum/maximum transaction is required. State agencies and funds that are authorized to earn interest also invest in the PTIF as an internal investment pool. No separate report as an external investment pool has been issued for the PTIF.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act establishes the Money Management Council which oversees the activities of the State Treasurer and the PTIF. The Act details the investments that are authorized which are high-grade securities and, therefore, there is very little credit risk except in the most unusual and unforeseen circumstances. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated to participants on the ratio of the participant's share to the total funds in the PTIF based on the participant's average daily balance. The PTIF allocates income and issues statements on a monthly basis. Twice a year, at June 30 and December 31, which are the accounting periods for public entities, the investments are valued at fair value and participants are informed of the fair value valuation factor that enables them to adjust their statement balances to fair value.

The PTIF condensed financial statements, inclusive of external and internal participants for the fiscal year ended June 30, 2003, are as follows:

(Table presented on next page)

Public Treasurer's Investment Fund**Statement of Net Assets****June 30, 2003***(Expressed in Thousands)***Assets**

Cash and Cash Equivalents	\$ 277,272
Investments	5,493,890
Interest Receivable	13,974
Net Assets	<u>\$ 5,785,136</u>

Net Assets Consist of:

External Participant Account Balances	\$ 3,920,264
Internal Participant Account Balances:	
Primary Government	1,359,091
Component Units	477,894
Undistributed Reserves and Unrealized Gains/Losses	27,887
Net Assets	<u>\$ 5,785,136</u>

Participant Account Balance Net Asset Valuation Factor	<u>1.001434</u>
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Public Treasurer's Investment Fund
Statement of Changes in Net Assets
For the Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

Additions

Pool Participant Deposits	\$ 8,204,151
Investment Income:	
Investment Earnings	110,559
Fair Value Increases (Decreases)	22,628
Total Investment Income	133,187
Less Administrative Expenses	(131)
Net Investment Income	<u>133,056</u>
Total Additions	<u>8,337,207</u>

Deductions

Pool Participant Withdrawals	7,687,765
Earnings Distributions	108,155
Total Deductions	<u>7,795,920</u>
Net Increase From Operations	<u>541,287</u>

Net Assets

Beginning of Year	5,243,849
Net Assets – End of Year	<u>\$ 5,785,136</u>

Deposits and Investments

The following disclosure of deposits and investments is for the Public Treasurer's Investment Fund, which includes external and internal participants. These assets are also included in Note 3, disclosure of deposits and investments for the state entity as a whole. Information on the type of deposits and investments and how they are held is disclosed in Note 3. At June 30, 2003, the PTIF

investments included certificates of deposit of \$34.5 million that qualify as deposits. Of this amount, \$300 thousand was covered by the Federal Deposit Insurance Corporation (FDIC) and \$34.2 million was uninsured and uncollateralized and was held by various financial institutions. The following schedule provides information about the credit and market risks associated with the State's investments. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name.

Public Treasurer's Investment Fund
Credit and Market Risks of Investments
June 30, 2003
(Expressed in Thousands)

	<u>Category</u>	<u>Fair</u>
	<u>1</u>	<u>Value</u>
Negotiable CDs	\$ 165,180	\$ 165,180
Money Market Funds	270,000	270,000
U.S. Government Securities	479,951	479,951
Corporate Bonds and Notes	4,821,531	4,821,531
Total Investments	<u>\$ 5,736,662</u>	<u>\$ 5,736,662</u>

Public Treasurer's Investment Fund
Portfolio Statistics

June 30, 2003		
	<u>Range of Yields</u>	<u>Weighted Average Maturity</u>
Money Market Funds	1.05% – 1.25%	1 day
Certificates of Deposit	1.35% – 2.00%	26.8 days
U.S. Government Securities	1.00% – 2.50%	63.57 days
Corporate Bonds and Notes	1.06% – 4.05 %	47.78 days
 June 30, 2003		
	<u>Weighted Average Yield</u>	<u>Average Adjusted Maturity</u>
Total Investment Fund.....	1.63%	46.17 days

NOTE 5. RECEIVABLES

Receivables as of June 30, 2003, consisted of the following (in thousands):

	Accounts Receivable					Notes/ Mortgages
	Federal	Customer	Other	Interest	Taxes	
Governmental Activities:						
General Fund.....	\$ 296,280	\$ 187,595	\$ 17,061	\$ 49	\$ 226,712	\$ 6,064
Uniform School Fund.....	41,303	—	304	—	355,260	6,624
Transportation Fund.....	53,065	73	5,514	—	54,435	615
Centennial Highway Fund.....	24,997	—	—	—	659	—
Trust Lands	—	—	14,164	1,031	—	6,009
Nonmajor Funds.....	—	29,135	—	62	—	155
Internal Service Funds.....	—	2,862	—	—	—	—
Adjustments:						
Fiduciary Funds.....	—	—	6,981	—	—	—
Total Receivables	<u>415,645</u>	<u>219,665</u>	<u>44,024</u>	<u>1,142</u>	<u>637,066</u>	<u>19,467</u>
Less Allowance for Uncollectibles:						
General Fund.....	—	(56,511)	—	—	(14,810)	(1,161)
Uniform School Fund.....	—	—	—	—	(96,626)	—
Transportation Fund.....	—	—	(200)	—	(910)	—
Centennial Highway Fund.....	—	—	—	—	(50)	—
Internal Service Funds.....	—	(132)	—	—	—	—
Receivables, net	<u>\$ 415,645</u>	<u>\$ 163,022</u>	<u>\$ 43,824</u>	<u>\$ 1,142</u>	<u>\$ 524,670</u>	<u>\$ 18,306</u>
Current Receivables	\$ 415,645	\$ 111,525	\$ 31,377	\$ 1,142	\$ 482,152	\$ 1,933
Noncurrent Receivables	—	51,497	12,447	—	42,518	16,373
Total Receivables (net).....	<u>\$ 415,645</u>	<u>\$ 163,022</u>	<u>\$ 43,824</u>	<u>\$ 1,142</u>	<u>\$ 524,670</u>	<u>\$ 18,306</u>
Business-type Activities:						
Student Assistance Programs	\$ 7,589	\$ 600	\$ —	\$ 17,356	\$ —	\$ 1,129,174
Unemployment Compensation	1,644	47,385	—	—	—	—
Water Loan Programs.....	226	—	—	7,823	578	431,673
Nonmajor Funds.....	—	7,610	842	2,822	—	241,836
Total Receivables	<u>9,459</u>	<u>55,595</u>	<u>842</u>	<u>28,001</u>	<u>578</u>	<u>1,802,683</u>
Less Allowance for Uncollectibles:						
Student Assistance Programs	—	—	—	—	—	(4,492)
Unemployment Compensation	—	(11,332)	—	—	—	—
Water Loan Programs.....	—	—	—	—	(26)	—
Receivables, net	<u>\$ 9,459</u>	<u>\$ 44,263</u>	<u>\$ 842</u>	<u>\$ 28,001</u>	<u>\$ 552</u>	<u>\$ 1,798,191</u>

Accounts receivable balances are an aggregation of amounts due from the federal government, customers and others. Receivables from customers include charges for services to local governments, fees and fines issued by the courts and corrections, employer contributions for unemployment benefits, and receivables as a result of overpayments to individuals receiving state assistance.

Receivables for fiduciary funds listed above represent amounts due from fiduciary funds which were reclassified as external receivables on the government-wide Statement of Net Assets.

Aggregated receivables for component units at June 30, 2003, were \$1.134 billion for major component units and \$45.675 million for nonmajor component units, net of an allowance for doubtful accounts of \$39.888 million and \$2.378 million, respectively.

NOTE 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of June 30, 2003, consisted of the following (in thousands):

	Salaries/ Benefits	Service Providers	Vendors/ Other	Government	Tax Refunds	Interest	Total
Governmental Activities:							
General Fund	\$ 55,383	\$ 129,704	\$ 31,814	\$ 82,327	\$ 4,863	\$ —	\$ 304,091
Uniform School Fund	2,634	1,825	3,789	33,168	37,126	—	78,542
Transportation Fund	6,775	211	55,731	38,668	572	—	101,957
Centennial Highway Fund	—	—	68	—	—	—	68
Nonmajor Funds	28	—	21,628	283	—	30,925	52,864
Internal Service Funds	2,012	—	7,858	—	—	6	9,876
Adjustments:							
Fiduciary Funds	—	—	—	462	—	—	462
Other	—	—	—	—	—	1,598	1,598
Total Governmental Activities	<u>\$ 66,832</u>	<u>\$ 131,740</u>	<u>\$ 120,888</u>	<u>\$ 154,908</u>	<u>\$ 42,561</u>	<u>\$ 32,529</u>	<u>\$ 549,458</u>
Business-type Activities:							
Student Assistance Programs	\$ 1,391	\$ —	\$ 6,357	\$ 1,982	\$ —	\$ 3,903	\$ 13,633
Unemployment Compensation	—	477	281	—	—	—	758
Water Loan Programs	—	—	415	—	—	20	435
Nonmajor Funds	1,091	—	10,087	56	—	136	11,370
Adjustments:							
Fiduciary Funds	—	—	—	76	—	—	76
Other	—	—	—	—	—	(1,116)	(1,116)
Total Business-type Activities	<u>\$ 2,482</u>	<u>\$ 477</u>	<u>\$ 17,140</u>	<u>\$ 2,114</u>	<u>\$ 0</u>	<u>\$ 2,943</u>	<u>\$ 25,156</u>

Accounts payable and accrued liability balances are an aggregation of amounts due to: 1) state employees for salaries/benefits; 2) service providers for childcare, job services and health services; 3) vendors and miscellaneous suppliers; 4) local and federal governments for services; 5) individuals and others as a result of tax overpayments; and 6) interest due on bonds and other obligations.

Adjustments for fiduciary funds listed above represent amounts due to fiduciary funds which were reclassified as external payables on the government-wide Statement of Net Assets. Other adjustments are due to differences in the presentation and the basis of accounting between the fund financial statements and the government-wide Statement of Net Assets.

NOTE 7. INTERFUND BALANCES AND LOANS**Interfund Balances**

Interfund balances at June 30, 2003, consisted of the following (in thousands):

Due to General Fund from:	
Uniform School Fund.....	\$ 1,672
Transportation Fund.....	1,075
Trust Lands Fund	44
Nonmajor Governmental Funds	609
Unemployment Compensation Fund	1,992
Water Loan Programs.....	52
Nonmajor Enterprise Funds	8,887
Internal Service Funds.....	1,320
Fiduciary Funds.....	6,920
Total due to General Fund from other funds	<u>\$ 22,571</u>
Due to Uniform School Fund from:	
General Fund.....	805
Trust Lands Fund	5
Unemployment Compensation Fund	752
Nonmajor Enterprise Funds	1,176
Internal Service Funds.....	159
Total due to Uniform School Fund from other funds	<u>\$ 2,897</u>
Due to Transportation Fund from:	
General Fund.....	252
Uniform School Fund.....	2
Centennial Highway Fund.....	17,607
Nonmajor Governmental Funds	137
Nonmajor Enterprise Funds	2
Internal Service Funds.....	3,839
Total due to Transportation Fund from other funds	<u>\$ 21,839</u>
Due to Centennial Highway Fund from Transportation Fund.....	<u>\$ 42</u>
Due to Trust Lands Fund from Nonmajor Enterprise Funds	<u>\$ 3,796</u>
Due to Nonmajor Governmental Funds from:	
General Fund.....	3,455
Uniform School Fund.....	10
Nonmajor Governmental Funds	22
Nonmajor Enterprise Funds	68
Internal Service Funds.....	569
Fiduciary Funds.....	59
Total due to Nonmajor Governmental Funds from other funds	<u>\$ 4,183</u>
Due to Water Loan Programs from:	
General Fund.....	120
Trust Lands Fund	19
Nonmajor Governmental Funds	3
Nonmajor Enterprise Funds	17
Total due to Water Loan Programs from other funds	<u>\$ 159</u>

Due to Nonmajor Enterprise Funds from:	
General Fund	663
Uniform School Fund	4
Transportation Fund.....	100
Trust Lands Fund	57
Nonmajor Governmental Funds.....	1,630
Total due to Nonmajor Enterprise Funds from other funds	<u>\$ 2,454</u>
Due to Internal Service Funds from:	
General Fund	8,367
Uniform School Fund	314
Transportation Fund.....	2,202
Nonmajor Governmental Funds.....	673
Nonmajor Enterprise Funds	114
Internal Service Funds	137
Fiduciary Funds	2
Total due to Internal Service Funds from other funds	<u>\$ 11,809</u>
Due to Fiduciary Funds from:	
General Fund	335
Transportation Fund.....	13
Trust Lands Fund.....	35
Nonmajor Governmental Funds.....	59
Water Loan Programs	20
Nonmajor Enterprise Funds	56
Internal Service Funds	20
Total due to Fiduciary Funds from other funds	<u>\$ 538</u>
Total Due to/Due froms	<u>\$ 70,288</u>

These balances resulted from the time lags between the dates that: 1) interfund goods and services are provided or reimbursable expenditures occur; 2) transactions are recorded in the accounting system; and 3) payments between funds are made.

Interfund Loans

Interfund loans at June 30, 2003, consisted of the following (in thousands):

Payable to General Fund from Internal Service Funds	\$ 43,546
Payable to Internal Service Funds from Centennial Highway Fund	2,478
Payable to Nonmajor Enterprise Funds from Internal Service Funds	80
Total Interfund Loans Receivable/Payable	<u>\$ 46,104</u>

The interfund loans receivable/payable balances consist of revolving loans with Internal Service Funds. The balance of \$46.104 million includes \$25.340 million which is not expected to be repaid within one year.

NOTE 8. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003, was as follows (in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	\$ 607,265	\$ 65,007	\$ (465)	\$ 671,807
Infrastructure	7,355,261	158,537	(643)	7,513,155
Construction-In-Progress	381,843	373,157	(207,514)	547,486
Total Capital Assets not being Depreciated	<u>8,344,369</u>	<u>596,701</u>	<u>(208,622)</u>	<u>8,732,448</u>
Capital Assets being Depreciated:				
Buildings and Improvements	895,211	28,875	(5,747)	918,339
Infrastructure	11,568	1,566	—	13,134
Machinery and Equipment	430,533	40,519	(43,766)	427,286
Total Capital Assets being Depreciated	<u>1,337,312</u>	<u>70,960</u>	<u>(49,513)</u>	<u>1,358,759</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(276,282)	(25,320)	4,839	(296,763)
Infrastructure	(3,365)	(491)	—	(3,856)
Machinery and Equipment	(264,666)	(46,960)	35,456	(276,170)
Total Accumulated Depreciation	<u>(544,313)</u>	<u>(72,771)</u>	<u>40,295</u>	<u>(576,789)</u>
Total Capital Assets being Depreciated, Net	<u>792,999</u>	<u>(1,811)</u>	<u>(9,218)</u>	<u>781,970</u>
Capital Assets, Net	<u>\$ 9,137,368</u>	<u>\$ 594,890</u>	<u>\$ (217,840)</u>	<u>\$ 9,514,418</u>
Business-type Activities:				
Capital Assets not being Depreciated:				
Land and Related Assets	\$ 12,195	\$ 3,123	\$ (981)	\$ 14,337
Construction-In-Progress	1,153	129	(787)	495
Total Capital Assets not being Depreciated	<u>13,348</u>	<u>3,252</u>	<u>(1,768)</u>	<u>14,832</u>
Capital Assets being Depreciated:				
Buildings and Improvements	30,583	9,886	(361)	40,108
Machinery and Equipment	10,984	336	(181)	11,139
Total Capital Assets being Depreciated	<u>41,567</u>	<u>10,222</u>	<u>(542)</u>	<u>51,247</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,894)	(790)	16	(5,668)
Machinery and Equipment	(7,948)	(1,405)	162	(9,191)
Total Accumulated Depreciation	<u>(12,842)</u>	<u>(2,195)</u>	<u>178</u>	<u>(14,859)</u>
Total Capital Assets being Depreciated, Net	<u>28,725</u>	<u>8,027</u>	<u>(364)</u>	<u>36,388</u>
Capital Assets, Net	<u>\$ 42,073</u>	<u>\$ 11,279</u>	<u>\$ (2,132)</u>	<u>\$ 51,220</u>

Construction-in-progress of governmental activities includes amounts for buildings the State is constructing for colleges and universities (component units) that are funded by state appropriations or state bond proceeds. As the buildings are completed, the applicable amounts are deleted from construction-in-progress of governmental activities and "transferred" to the colleges and universities. For fiscal year 2003, \$15.207 million of buildings were completed for colleges and universities. On the government-wide statement of activities, the building "transfers" are reported as higher education expenses of governmental activities and as program revenues of component units.

In the beginning balance column above, machinery and equipment of the governmental activities was reduced by \$3.639 million and the related accumulated depreciation was reduced by \$2.089 million from the amounts reported in the prior year. These adjustments were due to the Public Employees Health Program being reclassified from an internal service fund to a discrete component unit as described in Note 1 A. Also, amounts in the beginning balances column above have been adjusted by a net \$117.753 million as follows: infrastructure was increased by \$9.005 million; construction-in-progress was increased by \$121.932 million; and buildings and improvements were reduced by \$20.314 million and the related accumulated depreciation was reduced by \$7.13 million. These adjustments corrected beginning balances as described in Note 2.

Depreciation expense of governmental activities was charged to functions as follows (in thousands):

General Government	\$ 7,646
Human Services and Youth Corrections.....	6,017
Corrections, Adult.....	5,257
Public Safety	2,826
Courts.....	4,603
Health and Environmental Quality	2,031
Employment and Family Services.....	2,002
Natural Resources	5,041
Community and Economic Development	482
Business, Labor, and Agriculture	1,162
Public Education	948
Transportation	12,557
Depreciation on capital assets of the State's internal service funds is charged to the various functions based on their usage of services provided	22,199
Total	<u>\$ 72,771</u>

Discretely Presented Component Units

The following table summarizes net capital assets reported by the discretely presented component units (in thousands):

	Utah Housing Corporation	Public Employees Health Program	University of Utah	Utah State University	Nonmajor Component Units	Total
Capital Assets not being Depreciated:						
Land and Related Assets	\$ 250	\$ —	\$ 45,969	\$ 10,516	\$ 45,960	\$ 102,695
Construction-In-Progress	—	—	68,513	32,112	8,603	109,228
Total Capital Assets not being Depreciated...	<u>250</u>	<u>0</u>	<u>114,482</u>	<u>42,628</u>	<u>54,563</u>	<u>211,923</u>
Capital Assets being Depreciated:						
Building and Improvements	1,307	—	1,030,348	374,511	820,110	2,226,276
Infrastructure	—	—	107,613	—	22,159	129,772
Machinery and Equipment	1,070	3,861	558,426	138,854	150,135	852,346
Total Capital Assets being Depreciated.....	<u>2,377</u>	<u>3,861</u>	<u>1,696,387</u>	<u>513,365</u>	<u>992,404</u>	<u>3,208,394</u>
Less Total Accumulated Depreciation.....	<u>(1,442)</u>	<u>(2,502)</u>	<u>(786,371)</u>	<u>(225,658)</u>	<u>(369,262)</u>	<u>(1,385,235)</u>
Total Capital Assets being Depreciated, Net.	<u>935</u>	<u>1,359</u>	<u>910,016</u>	<u>287,707</u>	<u>623,142</u>	<u>1,823,159</u>
Discretely Presented Component Units –						
Capital Assets, Net	<u>\$ 1,185</u>	<u>\$ 1,359</u>	<u>\$ 1,024,498</u>	<u>\$ 330,335</u>	<u>\$ 677,705</u>	<u>\$ 2,035,082</u>

The State had long-term construction project commitments totaling \$119.097 million at June 30, 2003. The following construction projects have remaining commitments and represent reservations of fund balance in the Capital Projects Funds (nonmajor governmental funds):

Capital Projects Fund
Construction Project Commitments
(Expressed in Thousands)

Project	Description	Remaining Construction Commitment
02029	USU Merrill Library	\$ 22,208
01074	New Legislative Buildings.....	18,492
01020	Four Campus Classrooms	11,146
02156	State Capitol Parking Structure.....	9,306
00018	Dixie College – Eccles Fine Arts Center	7,883
01312	SUU – New Student Housing	7,663
02015	Washington County Youth Corrections Facility.....	5,622
99219	USU Edith Bowen School Renovation	3,372
02042	U of U – Health Sciences Education Building	2,629
00253	Snow College – Performing Arts Building	2,281
01009	U of U – Moran Eye Center Phase II.....	2,146
02149	WSU – Lampros Hall Renovation	1,909
02032	U of U – Marriott Library Renovation.....	1,682
97097	State Capitol Remodel Planning/Design.....	1,484
00269	UVSC – Wasatch Campus Building.....	1,469
98239	State Hospital – Rampton Bldg Phase II.....	1,376
—	All Others	18,429
	Total Commitments.....	<u>\$ 119,097</u>

NOTE 9. LEASE COMMITMENTS

The State leases office buildings and office and computer equipment. Although the lease terms vary, most leases are subject to annual appropriations from the State Legislature to continue the lease obligations. If an appropriation is reasonably assured, leases are considered noncancellable for financial reporting purposes.

Leases that in substance are purchases are reported as capital lease obligations. In the government-wide financial statements and proprietary fund financial statements, assets and liabilities resulting from capital leases are recorded at the inception of the lease at either the lower of fair value or the present value of the future minimum lease payments. The principal portion of lease payments reduces the liability, and the interest portion is expensed.

On the governmental fund financial statements, both the principal and interest portions of capital lease payments are recorded as expenditures of the applicable governmental function.

The primary government's capital lease payments were \$2.18 million in principal and \$1.102 million in interest for fiscal year 2003. The

historical cost and accumulated depreciation of the primary government's assets acquired through capital leases were \$21.125 million and \$6.142 million, respectively, as of June 30, 2003.

Operating leases contain various renewal options, as well as some purchase options. However, due to the nature of the leases, they do not qualify as capital leases and the related assets and liabilities are not recorded. Any escalation clauses, sublease rentals, and contingent rents were considered immaterial to the future minimum lease payments and current rental expenditures. Operating lease payments are recorded as expenditures or expenses when paid or incurred.

Operating lease expenditures for fiscal year 2003 were \$26.473 million for the primary government and \$16.532 million for component units. For fiscal year 2002, the operating lease expenditures were \$31.163 million for the primary government and \$17.609 million for component units. Future minimum lease commitments for noncancellable operating leases and capital leases as of June 30, 2003, were as follows:

Future Minimum Lease Commitments
(Expressed in Thousands)

Fiscal Year	Operating Leases			Capital Leases		
	Primary Government	Component Units	Total	Primary Government	Component Units	Total
2004.....	\$ 19,540	\$ 15,427	\$ 34,967	\$ 2,075	\$ 16,536	\$ 18,611
2005.....	15,342	13,844	29,186	2,082	12,168	14,250
2006.....	12,349	12,124	24,473	2,078	8,868	10,946
2007.....	7,805	19,227	27,032	1,996	6,393	8,389
2008.....	4,050	8,948	12,998	1,927	5,082	7,009
2009–2013.....	9,886	22,896	32,782	5,217	43,473	48,690
2014–2018.....	6,318	380	6,698	2,029	580	2,609
2019–2023.....	2,595	206	2,801	940	—	940
2024–2028.....	110	137	247	423	—	423
2029–2033.....	—	28	28	—	—	—
Total Future Minimum Lease Payments	<u>\$ 77,995</u>	<u>\$ 93,217</u>	<u>\$ 171,212</u>	18,767	93,100	111,867
Less Amounts Representing Interest				(5,921)	(18,857)	(24,778)
Present Value of Future Minimum Lease Payments				<u>\$ 12,846</u>	<u>\$ 74,243</u>	<u>\$ 87,089</u>

NOTE 10. LONG-TERM LIABILITIES**A. Changes in Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2003, are presented in the following schedule. As referenced below, certain long-term liabilities are discussed in other Notes to the Financial Statements.

Long-term Liabilities (Expressed in Thousands)					
	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General Obligation Bonds	\$ 1,474,400	\$ 660,505	\$ (511,225)	\$ 1,623,680	\$ 111,810
State Building Ownership Authority					
Lease Revenue Bonds.....	342,378	1,302	(12,143)	331,537	12,728
Net Unamortized Premiums/(Discounts).....	27,642	87,756	(7,963)	107,435	—
Deferred Amount on Refunding	—	(15,828)	1,790	(14,038)	—
Capital Leases (Note 9)	15,026	—	(2,180)	12,846	1,072
Compensated Absences (Notes 1 and 18).....	135,541	52,069	(52,864)	134,746	58,503
Postemployment Benefits (Note 18).....	213,633	15,410	(12,601)	216,442	12,615
Claims (Note 19)	46,814	5,674	(8,829)	43,659	10,860
Arbitrage Liability (Note 1).....	99	4	—	103	—
Total Governmental Long-term Liabilities	<u>\$ 2,255,533</u>	<u>\$ 806,892</u>	<u>\$ (606,015)</u>	<u>\$ 2,456,410</u>	<u>\$ 207,588</u>
Business-type Activities					
Revenue Bonds.....	\$ 1,231,460	\$ 119,750	\$ (37,605)	\$ 1,313,605	\$ 6,158
State Building Ownership Authority					
Lease Revenue Bonds.....	22,858	—	(517)	22,341	917
Net Unamortized Premiums/(Discounts).....	269	—	(4)	265	—
Capital Leases (Note 9)	96	—	(96)	—	—
Arbitrage Liability (Note 1).....	36,830	16,066	(12)	52,884	1,116
Total Business-type Long-term Liabilities.....	<u>\$ 1,291,513</u>	<u>\$ 135,816</u>	<u>\$ (38,234)</u>	<u>\$ 1,389,095</u>	<u>\$ 8,191</u>
Component Units					
Revenue Bonds.....	\$ 1,574,607	\$ 352,540	\$ (273,565)	\$ 1,653,582	\$ 257,769
Net Unamortized Premiums/(Discounts).....	92	310	(3)	399	—
Capital Leases/Contracts Payable (Notes 9 and 10)	80,920	10,514	(13,645)	77,789	12,984
Notes Payable	25,543	14,923	(7,449)	33,017	3,983
Claims (Note 19)	79,895	341,365	(341,006)	80,254	40,604
Leave/Postemployment Benefits (Notes 1 and 18).	66,722	18,733	(17,587)	67,868	17,933
Total Component Unit Long-term Liabilities	<u>\$ 1,827,779</u>	<u>\$ 738,385</u>	<u>\$ (653,255)</u>	<u>\$ 1,912,909</u>	<u>\$ 333,273</u>

Compensated absences and postemployment benefits liabilities of governmental activities are liquidated in the General Fund, Uniform School Fund, or Transportation Fund according to the applicable employing state agency. Claims liabilities of governmental activities are liquidated in the Risk Management Internal Service Fund.

In the beginning balances column above, claims liabilities of the governmental activities was reduced by \$79.895 million and claims liabilities of component units was increased by \$79.895 million from the amounts reported in the prior year. These adjustments were due to the Public Employees Health Program being reclassified from an internal service fund to a discrete component unit as described in Note 1.A.

B. General Obligation Bonds

The State issues general obligation bonds to provide funds for acquisition, construction, and renovation of major capital facilities and for highway construction. In addition, general obligation bonds have been issued to refund general obligation bonds, revenue bonds, and capitalized leases. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues. As of June 30, 2003, the State had \$28.6 million and \$32.4 million of authorized but

unissued general obligation building and highway bond authorizations remaining, respectively.

During fiscal year 2003 the State issued \$253.1 million Series 2002 B general obligation refunding bonds. The proceeds were used to advance refund portions of the 1997 E, 1997 F, and 1998A general obligation bonds. The State also issued \$407.4 million Series 2003 A general obligation bonds. The proceeds were used to refund \$150 million of variable rate bonds, provide funds for certain highway projects, and various other construction projects.

General obligation bonds payable consist of the following:

General Obligation Bonds Payable
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2003
1997 A–E Highway/Capital Facility Issue	07/01/97	2001–2007	4.80% to 5.50%	\$ 200,000	\$ 80,375
1997 F Highway Issue.....	08/01/97	2001–2007	5.00% to 5.50%	\$ 205,000	78,375
1998 A Highway/Capital Facility Issue	07/07/98	2001–2008	5.00%	\$ 265,000	122,225
1999 E Capital Facility Issue	07/01/99	2004	4.50%	\$ 38,000	38,000
2001 A Capital Facility Issue	01/24/01	2004	4.00%	\$ 15,000	15,000
2001 B Highway/Capital Facility Issue.....	07/02/01	2004–2014	4.50%	\$ 348,000	348,000
2002 A Highway/Capital Facility Issue	06/27/02	2003–2015	3.00% to 5.25%	\$ 281,200	281,200
2002 B Refunding Issue	07/31/02	2004–2012	3.00% to 5.38%	\$ 253,100	253,100
2003 A Highway/Capital Facility Issue	06/26/03	2005–2016	2.00% to 5.00%	\$ 407,405	407,405
Total General Obligation Bonds Outstanding					1,623,680
Plus Unamortized Bond Premium					104,113
Less Deferred Amount on Refunding.....					(14,038)
Total General Obligation Bonds Payable					<u>\$ 1,713,755</u>

General Obligation Bond Issues
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Principal

Fiscal Year	1997 A–E Highway/Capital Facility	1997 F Highway Bonds	1998 A Highway/Capital Facility	1999 E Capital Facility	2001 A Capital Facility	2001 B Highway/Capital Facility
2004	\$ 45,425	\$ 14,075	\$ 38,150	\$ —	\$ —	\$ —
2005	5,175	14,825	14,975	38,000	15,000	41,425
2006	9,350	15,625	15,850	—	—	34,900
2007	9,925	16,475	16,775	—	—	33,250
2008	10,500	17,375	17,750	—	—	34,650
2009–2013	—	—	18,725	—	—	165,700
2014–2018	—	—	—	—	—	38,075
Total	<u>\$ 80,375</u>	<u>\$ 78,375</u>	<u>\$ 122,225</u>	<u>\$ 38,000</u>	<u>\$ 15,000</u>	<u>\$ 348,000</u>

Continues Below

Principal

Fiscal Year	2002 A Highway/Capital Facility	2002 B Refunding Bonds	2003 A Highway/Capital Facility	Total Principal Required	Interest Required	Total Amount Required
2004	\$ 14,160	\$ —	\$ —	\$ 111,810	\$ 74,291	\$ 186,101
2005	4,850	2,035	—	136,285	67,781	204,066
2006	45,740	205	1,095	122,765	61,729	184,494
2007	48,075	160	7,775	132,435	55,145	187,580
2008	50,575	120	12,825	143,795	47,991	191,786
2009–2013	23,600	250,580	238,125	696,730	135,914	832,644
2014–2018	94,200	—	147,585	279,860	20,013	299,873
Total	<u>\$ 281,200</u>	<u>\$ 253,100</u>	<u>\$ 407,405</u>	<u>\$ 1,623,680</u>	<u>\$ 462,864</u>	<u>\$ 2,086,544</u>

C. Revenue Bonds

Revenue bonds payable consist of those issued by the Utah State Building Ownership Authority, the Utah State Board of Regents Student Loan Purchase Program, the State's Water Loan Programs, the Utah Housing Corporation, and the various colleges and universities. These bonds are not considered general obligations of the State.

Governmental Activities

The Utah State Building Ownership Authority (SBOA) has issued bonds for the purchase and construction of facilities to be leased to state agencies. The bonds are secured by the facilities, and repayment is made from lease income. The outstanding bonds payable at June 30, 2003, are reported as a long-term liability of the governmental activities, except for \$21.362 million and \$1.19 million which are reported in Alcoholic Beverage Control Fund, and Utah Correctional Industries Fund (nonmajor enterprise funds), respectively. These portions are reported as liabilities of the business-type activities on the government-wide statement of net assets.

During fiscal year 2003, the average interest rate for the SBOA Series 2001 C variable rate bonds was 1.25 percent, there is no stated minimum rate, but the maximum rate is 12 percent. The rate on the bond is reset weekly by the remarketing agent and fluctuates with the general changes in interest rates and the demand for these particular securities. In the applicable debt service requirements to maturity schedule, the interest rate used to project debt service requirements was 1.05 percent, which was the rate in effect at yearend.

Revenue bonds payable consist of the following:

Revenue Bonds Payable – Component Units
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2003
Utah Housing Corporation Issues	1985–2003	2003–2045	1.5% to 10.55%	\$ 2,438,147	\$ 1,291,661
Colleges and Universities					
Revenue Bonds	1987–2003	2003–2031	variable and 1.9% to 8.49%	\$ 476,925	361,921
Total Revenue Bonds Outstanding					1,653,582
Colleges and Universities					
Plus Unamortized Bond Premium					399
Total Revenue Bonds Payable					<u>\$ 1,653,981</u>

Business-type Activities

The Utah State Board of Regents Student Loan Purchase Program bonds were issued to provide funds for student loans and are secured by all assets of the Board of Regents Revenue Bond Fund and by the revenues and receipts derived from such assets. The Board of Regents has also issued a revenue bond for an office facility secured by funds within the Board of Regents budget, that would otherwise be expended for rent.

The Student Assistance Programs have \$240.555 million of bonds bearing interest at an adjustable rate, which is determined weekly by a remarketing agent. The Programs also have adjustable rate bonds which are set by an auction procedure every 28 days in the amount of \$312.1 million and \$657.35 million of bonds which are auctioned every 35 days.

The State's water loan programs have issued revolving loan recapitalization program bonds to provide capital for the State's revolving loan programs, and subsequently has refunded one of the bonds. The bonds are secured by and repayment is made from the collection of the revolving loan programs' notes receivables.

Discrete Component Units

The Utah Housing Corporation bonds were issued to provide sources of capital for making housing loans to persons of low or moderate income. The bonds are secured by mortgages, and repayments are made from the mortgage payments.

The colleges and universities issue bonds for various purposes, including student housing, special events centers, and student union centers. The bonds are secured by the related assets, student building fees, and other income of certain college activities.

Revenue Bonds Payable – Primary Government
(Expressed in Thousands)

Bond Issue	Date Issued	Maturity Date	Interest Rate	Original Issue	Balance June 30, 2003
Governmental Activities					
SBOA Lease Revenue Bonds:					
Series 1992 A.....	07/15/92	1993–2011	5.30% to 5.75%	\$ 26,200	\$ 15,785
Series 1992 B.....	07/15/92	1994–2011	4.00% to 6.00%	\$ 1,380	860
Series 1993 A.....	12/01/93	1995–2013	4.50% to 5.25%	\$ 6,230	3,965
Series 1993 B.....	12/01/93	1995–2014	4.50% to 5.25%	\$ 8,160	5,430
Series 1994 A.....	09/01/94	1995–2005	5.00% to 6.25%	\$ 27,465	3,375
Series 1995 A.....	07/01/95	1996–2007	5.00% to 5.75%	\$ 92,260	15,295
Series 1996 A.....	07/01/96	1997–2007	5.50% to 6.00%	\$ 42,895	7,145
Series 1996 B.....	11/01/96	1999–2013	5.00% to 5.40%	\$ 16,875	12,550
Series 1998 A.....	07/01/98	1999–2020	3.75% to 5.25%	\$ 24,885	15,865
Series 1998 B Capital Appreciation	07/22/98	2005	4.65%	\$ 23,091	28,978
Series 1998 C.....	08/15/98	2000–2019	3.80% to 5.50%	\$ 101,557	101,374
Series 1999 A.....	08/01/99	2001–2021	5.25% to 5.50%	\$ 6,960	6,555
Series 2001 A.....	11/21/01	2005–2021	4.00% to 5.00%	\$ 69,850	69,850
Series 2001 B.....	11/21/01	2002–2024	3.00% to 5.75%	\$ 14,240	14,210
Series 2001 C.....	11/21/01	2005–2021	variable	\$ 30,300	30,300
Total Lease Revenue Bonds Outstanding..					331,537
Plus Unamortized Bond Premium.....					3,322
Total Lease Revenue Bonds Payable.....					<u>\$ 334,859</u>
Business-type Activities					
Student Assistance Programs:					
Series 1988 and 1993 Board of Regents Student Loan Indentures.....	1988–2003	1998–2041	Variable and 4.45% to 6.10%	\$1,333,015	\$ 1,303,135
Office Facility Bond Fund.....	02/01/02	2003–2022	3.50% to 5.13%	\$ 8,095	7,830
Total Revenue Bonds Outstanding					1,310,965
Plus Unamortized Bond Premium.....					54
Total Revenue Bonds Payable.....					<u>\$ 1,311,019</u>
Water Loan Programs:					
Series 1992 A Revolving Loan Recapitalization Program	04/15/92	1993–2004	4.00% to 6.60%	\$ 5,065	\$ 575
Series 1995 Water Refunding.....	10/04/95	1996–2005	5.13%	\$ 8,430	2,065
Total Revenue Bonds Payable.....					<u>\$ 2,640</u>
SBOA Lease Revenue Bonds:					
Series 1994 A.....	09/01/94	1995–2005	5.00% to 6.25%	\$ 3,450	\$ 325
Series 1995 A.....	07/01/95	1996–2007	5.00% to 5.70%	\$ 740	140
Series 1996 A.....	07/01/96	1998–2007	5.50% to 6.00%	\$ 1,830	310
Series 1997 A.....	12/01/97	1999–2018	4.60% to 5.13%	\$ 4,150	3,510
Series 1998 A.....	07/01/98	1999–2020	3.75% to 5.25%	\$ 825	700
Series 1998 C.....	08/15/98	2000–2019	3.80% to 5.50%	\$ 3,543	3,536
Series 1999 A.....	08/01/99	2001–2020	5.25% to 5.50%	\$ 2,495	2,280
Series 2001 B.....	11/21/01	2004–2023	3.25% to 5.25%	\$ 11,540	11,540
Total Lease Revenue Bonds Outstanding..					22,341
Plus Unamortized Bond Premium.....					211
Total Lease Revenue Bonds Payable.....					<u>\$ 22,552</u>
Total Lease Revenue/ Revenue Bonds Payable					<u>\$ 1,336,211</u>

Revenue Bond Issues – Primary Government
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal							
	Student Assistance Programs	1992 A Revolving Loan Recap Program	1992 A Utah State Building Ownership Authority	1992 B Utah State Building Ownership Authority	1993 A Utah State Building Ownership Authority	1993 B Utah State Building Ownership Authority	1994 A Utah State Building Ownership Authority	1995 A Utah State Building Ownership Authority
2004.....	\$ 4,575	\$ 575	\$ 1,380	\$ 75	\$ 315	\$ 380	\$ 1,805	\$ 3,575
2005.....	8,275	—	1,460	80	330	395	1,895	3,760
2006.....	23,295	—	1,545	85	345	415	—	3,945
2007.....	5,530	—	1,640	90	360	440	—	4,155
2008.....	94,765	—	1,735	95	380	460	—	—
2009–2013	50,225	—	8,025	435	2,235	2,705	—	—
2014–2018	36,280	—	—	—	—	635	—	—
2019–2023	5,865	—	—	—	—	—	—	—
2024–2028	215,000	—	—	—	—	—	—	—
2029–2033	190,555	—	—	—	—	—	—	—
2034–2038	364,500	—	—	—	—	—	—	—
2039–2043	312,100	—	—	—	—	—	—	—
Total.....	<u>\$1,310,965</u>	<u>\$ 575</u>	<u>\$ 15,785</u>	<u>\$ 860</u>	<u>\$ 3,965</u>	<u>\$ 5,430</u>	<u>\$ 3,700</u>	<u>\$ 15,435</u>

Continues Below

Fiscal Year	Principal							
	1995 Water Refunding	1996 A Utah State Building Ownership Authority	1996 B Utah State Building Ownership Authority	1997 A Utah State Building Ownership Authority	1998 A Utah State Building Ownership Authority	1998 B Utah State Building Ownership Authority	1998 C Utah State Building Ownership Authority	1999 A Utah State Building Ownership Authority
2004.....	\$ 1,005	\$ 1,720	\$ 995	\$ 160	\$ 2,485	\$ —	\$ 50	\$ 310
2005.....	1,060	1,820	1,040	170	2,615	28,978	55	330
2006.....	—	1,905	1,095	180	705	—	1,120	345
2007.....	—	2,010	1,150	190	735	—	1,170	365
2008.....	—	—	1,205	195	775	—	7,715	380
2009–2013	—	—	7,065	1,140	4,420	—	44,255	2,245
2014–2018	—	—	—	1,475	4,550	—	48,275	2,910
2019–2023	—	—	—	—	280	—	2,270	1,950
2024–2028	—	—	—	—	—	—	—	—
2029–2033	—	—	—	—	—	—	—	—
2034–2038	—	—	—	—	—	—	—	—
2039–2043	—	—	—	—	—	—	—	—
Total.....	<u>\$ 2,065</u>	<u>\$ 7,455</u>	<u>\$ 12,550</u>	<u>\$ 3,510</u>	<u>\$ 16,565</u>	<u>\$ 28,978</u>	<u>\$ 104,910</u>	<u>\$ 8,835</u>

Continues Below

Revenue Bond Issues – Primary Government (continued)
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal			Total Principal Required	Interest Required	Total Amount Required
	2001 A Utah State Building Ownership Authority	2001 B Utah State Building Ownership Authority	2001 C Utah State Building Ownership Authority			
2004	\$ —	\$ 395	\$ —	\$ 19,800	\$ 34,692	\$ 54,492
2005	2,000	865	2,100	57,228	36,250	93,478
2006	3,175	895	1,100	40,150	32,330	72,480
2007	3,125	935	1,300	23,195	30,195	53,390
2008	3,250	965	1,400	113,320	28,621	141,941
2009–2013	18,300	5,460	8,100	154,610	116,257	270,867
2014–2018	23,150	6,705	9,700	133,680	86,312	219,992
2019–2023	16,850	8,485	6,600	42,300	65,776	108,076
2024–2028	—	1,045	—	216,045	56,809	272,854
2029–2033	—	—	—	190,555	48,421	238,976
2034–2038	—	—	—	364,500	29,718	394,218
2039–2043	—	—	—	312,100	7,622	319,722
Total	<u>\$ 69,850</u>	<u>\$ 25,750</u>	<u>\$ 30,300</u>	<u>\$ 1,667,483</u>	<u>\$ 573,003</u>	<u>\$ 2,240,486</u>

Revenue Bond Issues – Component Units
Debt Service Requirements to Maturity
For Fiscal Years Ended June 30
(Expressed in Thousands)

Fiscal Year	Principal				Total Principal Required	Interest Required	Total Amount Required
	Utah Housing Corporation	University of Utah	Utah State University	Nonmajor Component Units			
2004	\$ 243,280	\$ 8,009	\$ 2,080	\$ 4,400	\$ 257,769	\$ 73,838	\$ 331,607
2005	23,278	8,659	2,926	4,660	39,523	72,959	112,482
2006	28,930	9,289	3,069	4,910	46,198	70,909	117,107
2007	31,566	9,855	2,750	4,370	48,541	68,660	117,201
2008	33,565	9,975	2,858	4,625	51,023	66,258	117,281
2009–2013	155,717	56,394	16,298	22,375	250,784	292,493	543,277
2014–2018	142,194	50,452	14,493	14,570	221,709	231,607	453,316
2019–2023	175,203	44,661	91	11,120	231,075	170,653	401,728
2024–2028	212,799	35,484	—	3,050	251,333	105,759	357,092
2029–2033	184,857	8,258	—	2,240	195,355	41,460	236,815
2034–2038	39,407	—	—	—	39,407	9,916	49,323
2039–2043	16,675	—	—	—	16,675	3,734	20,409
2044–2048	4,190	—	—	—	4,190	232	4,422
Total	<u>\$ 1,291,661</u>	<u>\$ 241,036</u>	<u>\$ 44,565</u>	<u>\$ 76,320</u>	<u>\$ 1,653,582</u>	<u>\$ 1,208,478</u>	<u>\$ 2,862,060</u>

D. Conduit Debt Obligations

In 1985, the State Board of Regents authorized the University of Utah to issue Variable Rate Demand Industrial Development Bonds for the University Park Hotel, a limited partnership separate from the University. The bonds are payable solely from revenues of the University Park Hotel. The bonds do not constitute a debt or pledge of the faith and credit of the University of Utah or the State and, accordingly, have not been reported in the accompanying financial statements. At June 30, 2003, \$7.4 million of Variable Rate Demand Industrial Development Bonds are outstanding.

E. Demand Bonds

The State Building Ownership Authority issued \$30.3 million Series 2001 C variable rate demand lease revenue bonds. The bonds are subject to purchase upon not less than seven days notice of tender from the bondholder or in case the bonds cannot be remarketed. The remarketing agent is paid a fee of 5 basis points of the bonds outstanding on a quarterly basis.

In the case that the bonds cannot be remarketed, the SBOA has an irrevocable direct-pay letter of credit with Landesbank Hessen-Thüringen Girozentrale (Helaba) acting through its New York Branch in the amount of \$30.828 million, which is an amount sufficient to pay principal and 53 days of accrued interest at 12 percent. In consideration for the letter of credit, Helaba receives a fee of 17.5 basis points paid on a quarterly basis. The letter of credit expires on November 21, 2004, and as of June 30, 2003, the SBOA has not had to draw any funds for bondholder tenders or a failed remarketing.

The letter of credit also has a takeout provision for bonds that allows the SBOA to pay the bonds that Helaba holds (bank bonds) over a five-year period in approximately equal payments. The rate in effect for bank bonds for the first 90 days is the base rate, which is the higher of the Federal Funds rate plus 50 basis points or the Prime Rate, up to a maximum of 12 percent per annum. The interest rate for bank bonds held longer than 90 days is the base rate plus 2 percent. If the takeout provision were in effect and assuming all the bonds were not remarketed, the SBOA would pay debt service of \$8.406 million a year for five years, based on the maximum rate.

The Student Loan Purchase Program had \$240.555 million of demand bonds outstanding at June 30, 2003, subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, on seven days notice and delivery to the Board's remarketing agent.

In the event bonds cannot be remarketed, the Board has standby bond purchase agreements and a letter of credit agreement sufficient to pay the purchase price of bonds delivered to it. The Board pays quarterly fees to maintain the standby bond purchase agreements and letter of credit on the demand bonds.

An unused irrevocable direct-pay letter of credit expiring November 15, 2004, in the amount of \$37.462 million supports the Series 1993 A bonds of \$35 million. Standby bond purchase agreements of \$110.677 million expiring November 15, 2005 support the Series 1988 C and 1995 L bonds of \$104.5 million, and \$108.42 million expiring May 16, 2005, support the Series 1996 Q and 1997 R bonds of \$101.055 million. As of June 30, 2003,

the Board had not drawn any funds under the standby bond purchase agreements or the letter of credit.

The University of Utah (component unit) Series 1997 A bonds in the amount of \$16.39 million currently bear interest at a weekly rate in accordance with bond provisions. When a weekly rate is in effect, the Series 1997 A bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest on seven days notice and delivery to the University's tender agent. The interest requirement for the Series 1997 A Bonds is calculated using an interest rate of 1.05 percent, which is the rate in effect of June 30, 2003.

In the event the bonds cannot be remarketed, the tender agent is required to draw on an irrevocable letter of credit to pay the purchase price plus accrued interest on the bonds delivered to it. The letter of credit with the Bank of Nova Scotia is valid through July 30, 2005. As of June 30, 2003, the University had not drawn any funds under the letter of credit.

F. Capital Appreciation Bonds

On August 15, 1998, the Utah State Building Ownership Authority issued \$23.091 million of 1998 Series B Capital Appreciation lease revenue bonds. The interest on the bonds is accreted and added to the bonds payable. The accretion for the year ended June 30, 2003, was \$1.302 million, and at June 30, 2003, the total capital appreciation bonds payable including accreted interest was \$28.978 million.

G. Defeased Bonds and Bond Refunding

The State issued on July 31, 2002, \$253.1 million General Obligation Refunding Bonds Series 2002 B to advance refund \$77.675, \$100.675, and \$85.325 million of Series 1997 E, 1997 F, and 1998 A General Obligation Bonds, respectively. The principal amount of the refunding bonds, \$26.269 million of original issue premium, and \$513 thousand of other monies were paid to an escrow agent to be placed in an irrevocable trust account to provide for the debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Statement of Net assets. At June 30, 2003, \$263.675 million of general obligation bonds outstanding are considered defeased. The State did not have any prior defeased general obligation bonds outstanding.

The advance refunding transaction resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$15.828 million. This difference, reported in the Statement of Net Assets as a deduction from bonds payable, is being charged to operations through fiscal year 2012, using the bonds outstanding method, which approximates the effective interest method. The refunding reduced the State's aggregate debt service payments by \$5.965 million over ten years and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$5.745 million.

The State issued on June 26, 2003, \$407.405 million General Obligation Bond Series 2003 A and used \$150 million of the proceeds to currently refund \$150 million of its remaining Series 1999 A & C Variable Rate General Obligation Bonds to lock in a fixed long-term rate. The variable rate bonds had no minimum interest rate, but had a maximum interest rate of 10 percent; the

refunding bonds have an effective interest rate of 2.76 percent. Because the refunded debt had a variable rate, no attempt has been made to calculate the cash flow savings or economic savings related to this transaction.

On September 24, 2002, the Student Loan Purchase Program issued the Series 2002 X student loan revenue bonds at par to refund \$3.25 million of Series 1993 B bearing interest at 5.25 percent and maturing on November 1, 2002 and \$32.595 million of Series 1992 H bearing interest rates of 6.10 percent to 6.70 percent, and maturing between November 1, 2002 and November 1, 2015. The program paid a \$558 thousand premium to call the 1992 H bonds maturing on or after November 1, 2003. All of the bonds were paid or redeemed on November 1, 2002. Because the variable rate refunding issue has no stated minimum or maximum interest rate, no attempt has been made to disclose cash flow savings or economic gain. Due to the risk that variable interest may rise, there is no guarantee that the Student Loan Purchase Program will achieve an economic gain on this transaction. The Student Loan Purchase Program did not have any defeased bonds outstanding prior to the current year refunding.

In prior years, the State defeased certain revenue bonds by placing the proceeds of new bonds and other monies available for debt service in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in

the Statement of Net Assets. At June 30, 2003, \$105.615 million revenue bonds outstanding are considered defeased.

In prior years, component units defeased certain revenue bonds by placing the proceeds of new bonds and various bond reserves in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the component unit column on the Statement of Net Assets. At June 30, 2003, \$34.467 million of college and university bonds outstanding and \$6.25 million Utah Housing Corporation bonds outstanding are considered defeased.

H. Contracts Payable

Component unit capital leases/contracts payable include \$3.581 million in life annuity contracts.

I. Notes Payable

The notes payable balance consists of notes issued by component units for the purchase of buildings and equipment. The notes bear various interest rates and will be repaid over the next 30 years. They are secured by the related assets.

Notes Payable Debt Service Requirements to Maturity
Component Units
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Principal			Total Principal Required	Interest Required	Total Amount Required
	University of Utah	Utah State University	Nonmajor Component Units			
2004	\$ 458	\$ 2,140	\$ 1,385	\$ 3,983	\$ 1,296	\$ 5,279
2005	478	706	514	1,698	1,495	3,193
2006	419	748	432	1,599	1,440	3,039
2007	357	735	427	1,519	1,359	2,878
2008	388	761	908	2,057	1,468	3,525
2009–2013	2,503	3,461	2,539	8,503	5,123	13,626
2014–2018	3,796	2,207	1,309	7,312	2,988	10,300
2019–2023	2,285	3,003	678	5,966	785	6,751
2024–2028	—	—	360	360	45	405
2029–2033	—	—	20	20	—	20
Total	<u>\$ 10,684</u>	<u>\$ 13,761</u>	<u>\$ 8,572</u>	<u>\$ 33,017</u>	<u>\$ 15,999</u>	<u>\$ 49,016</u>

J. Debt Service Requirements for Derivatives

Swap Payments and Associated Debt — As explained in Note 3.D., Utah Housing Corporation (major component unit) had entered into pay-fixed, receive-variable interest rate swaps as of June 30, 2003. Using rates as of June 30, 2003, debt service

requirements of the Corporation's outstanding variable-rate debt and net swap payments are summarized below (in thousands). As rates vary, variable-rate bond interest payments and net swap payments will vary. The principal, interest and net swap interest are included in the Component Unit debt service schedule presented on page 82 for Utah Housing Corporation.

Utah Housing Corporation
Swap Payments and Associated Debt
For Fiscal Years Ending June 30
(Expressed in Thousands)

Fiscal Year	Variable Rate Bonds		Interest Rate Swaps, Net	Total
	Principal	Interest		
2004	\$ 13,020	\$ 3,893	\$ 13,722	\$ 30,635
2005	6,600	3,755	13,854	24,209
2006	6,430	3,685	13,569	23,684
2007	5,920	3,617	13,300	22,837
2008	5,520	3,555	13,057	22,132
2009–2013	21,890	16,951	62,074	100,915
2014–2018	23,560	15,852	57,629	97,041
2019–2033	50,285	14,081	50,549	114,915
2024–2028	88,830	10,568	37,087	136,485
2029–2033	124,990	4,811	15,408	145,209
2034–2035	12,695	153	266	13,114
Total	<u>\$ 359,740</u>	<u>\$ 80,921</u>	<u>\$ 290,515</u>	<u>\$ 731,176</u>

NOTE 11. GOVERNMENTAL FUND BALANCES — RESERVED AND DESIGNATED

The State's reserved fund balances represent: 1) **Nonlapsing Appropriations** which include continuing appropriations or nonlapsing funds, encumbrances for construction contracts in the capital projects funds, and limited encumbrances in the general

and special revenue funds; or 2) **Restricted Purposes** which include fund balances that are legally restricted for other purposes, assets restricted by bond agreements or other external restrictions, and those portions of fund balance that are not available for appropriation or expenditure, such as loans to internal service funds. A summary of the nature and purpose of these reserves by fund type at June 30, 2003, follows:

Reserved Fund Balances
(Expressed in Thousands)

	Nonlapsing Appropriations	Restricted Purposes	Total Reserved
General Fund:			
Legislature	\$ 2,711	\$ —	\$ 2,711
Governor.....	4,660	1,750	6,410
Elected Officials	2,219	1	2,220
Administrative Services.....	2,695	81	2,776
Tax Commission.....	6,900	11,181	18,081
Human Services.....	5,122	5,982	11,104
Corrections	4,792	153	4,945
Public Safety.....	2,768	7,486	10,254
Courts	1,420	3,149	4,569
Health	3,820	5,757	9,577
Environmental Quality	1,731	1,592	3,323
Employment and Family Services	—	9,097	9,097
Natural Resources.....	17,151	16,698	33,849
Community and Economic Development.....	3,916	2,435	6,351
Business, Labor, and Agriculture.....	7,414	4,655	12,069
Industrial Assistance Account	—	23,611	23,611
Loans to Internal Service Funds	—	43,546	43,546
Tobacco Settlement Funds.....	—	11,232	11,232
Oil Overcharge Funds.....	—	7,806	7,806
Other Purposes	242	7,207	7,449
Total	<u>\$ 67,561</u>	<u>\$ 163,419</u>	<u>\$ 230,980</u>
Uniform School Fund:			
Minimum School Program	\$ 31,106	\$ —	\$ 31,106
State Office of Education.....	5,594	—	5,594
School Building Program	—	9,792	9,792
School Land Interest.....	—	8,458	8,458
Total	<u>\$ 36,700</u>	<u>\$ 18,250</u>	<u>\$ 54,950</u>
Transportation Fund:			
Transportation.....	\$ 2,449	\$ —	\$ 2,449
Public Safety.....	—	6,843	6,843
Corridor Preservation	—	14,596	14,596
Aeronautical Programs	—	6,291	6,291
Salt Lake County Road Construction	—	11,657	11,657
Salt Lake County Bond Proceeds	—	52,012	52,012
Total	<u>\$ 2,449</u>	<u>\$ 91,399</u>	<u>\$ 93,848</u>
Centennial Highway Fund:			
Bond Proceeds.....	\$ —	\$ 109,266	\$ 109,266
Trust Lands Fund:			
Funds Held as Permanent Investments	\$ —	\$ 404,991	\$ 404,991
Other Governmental Funds:			
Capital Projects.....	\$ 119,097	\$ 53,216	\$ 172,313
Debt Service	—	8,897	8,897
Tobacco Settlement Funds.....	—	12,177	12,177
Environmental Reclamation	—	17,280	17,280
Other Purposes	—	4,881	4,881
Total	<u>\$ 119,097</u>	<u>\$ 96,451</u>	<u>\$ 215,548</u>

Designated Fund Balances
(Expressed in Thousands)

	General Fund	Uniform School Fund	Transportation Fund	Other Governmental Funds	Total Governmental Funds
Designated for:					
Budgetary Reserve (Rainy Day) Account...	\$ 26,546	\$ —	\$ —	\$ —	\$ 26,546
Education Budget Reserve Account	—	601	—	—	601
Postemployment and Other Liabilities	108,380	150,990	40,429	—	299,799
Fiscal Year 2004 Appropriations:					
Line Item Appropriations	74	35,574	—	—	35,648
Federal Jobs and Growth Relief Funds....	14,316	—	—	—	14,316
Industrial Assistance Account	5,169	—	—	—	5,169
Debt Service Requirements	1,531	—	—	—	1,531
Capital Projects.....	—	—	—	75,489	75,489
Debt Service	—	—	—	7,107	7,107
Total	\$ 156,016	\$ 187,165	\$ 40,429	\$ 82,596	\$ 466,206

NOTE 12. DEFICIT NET ASSETS

Funds reporting a deficit total net assets position at June 30, 2003, are (in thousands):

Private Purpose Trust Funds:

Employers' Reinsurance	\$ 245,278
Petroleum Storage Tank.....	\$ 58,229

The deficit in the Employers' Reinsurance Trust represents the unfunded portion of the actuarial estimate of claims incurred. The Employers' Reinsurance Trust claims are funded from assessments on workers' compensation insurance. The Utah Labor Commission sets the rate up to the maximum established by the Legislature to keep current revenues at a level sufficient to cover current cash disbursements. State law limits the State's liability to the cash or assets in the Employers' Reinsurance Trust only. State law also limits the Trust's liability to claims resulting from industrial accidents or occupational diseases occurring on or before June 30, 1994. For claims resulting from accidents or

diseases on or after July 1, 1994, the employer or its insurance carrier is liable for resulting liabilities.

The Petroleum Storage Tank Trust covers the clean-up costs of leaks from state-approved underground petroleum storage tanks. The assets in the fund are more than adequate to pay current claims. Unfunded future claims will be funded by future revenues.

Funds/activities reporting a deficit position in the unrestricted portion of their net assets at June 30, 2003, are (in thousands):

Internal Service Funds:

Information Technology	\$ 1,228
General Services.....	\$ 1,023
Fleet Operations	\$ 28,622

The Internal Service Funds deficits are mainly due to the significant investment in capital assets required for these operations. The deficits will be covered by future charges for services. Management may also seek rate increases to help reduce these deficits.

NOTE 13. INTERFUND TRANSFERS

Transfers between funds occur when one fund collects revenue and transfers the assets to another fund for expenditure or when one fund provides working capital to another fund. All transfers must be legally authorized by the Legislature through statute or an *Appropriation Act*. Interfund transfers for the fiscal year ended June 30, 2003, are as follows (in thousands):

	Transfers In:					
	Governmental Funds					
	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Trust Lands Fund	Nonmajor Governmental Funds
Transfers Out:						
General Fund.....	\$ —	\$ 1,565	\$ 19,412	\$ 48,795	\$ 10	\$ 59,471
Uniform School Fund.....	17,584	—	—	—	—	16,367
Transportation Fund	31,483	—	—	75,853	—	147
Centennial Highway Fund.....	—	—	—	—	—	86,828
Nonmajor Governmental Funds ..	53,318	—	—	—	—	3,739
Unemployment Compensation	2,369	—	—	—	—	—
Water Loan Programs.....	2,808	—	—	—	—	—
Nonmajor Enterprise Funds	35,681	—	—	—	—	—
Internal Service Funds.....	3,304	—	—	—	—	—
Total Transfers In	\$ 146,547	\$ 1,565	\$ 19,412	\$ 124,648	\$ 10	\$ 166,552

Continues Below

	Enterprise Funds			
	Water Loan Programs	Nonmajor Enterprise Funds	Internal Service Funds	Total Transfers Out
Transfers Out:				
General Fund.....	\$ 1,582	\$ 15,039	\$ 640	\$ 146,514
Uniform School Fund.....	—	—	—	33,951
Transportation Fund	—	—	—	107,483
Centennial Highway Fund.....	—	—	—	86,828
Nonmajor Governmental Funds ..	—	—	—	57,057
Unemployment Compensation	—	—	—	2,369
Water Loan Programs.....	—	—	—	2,808
Nonmajor Enterprise Funds	—	—	—	35,681
Internal Service Funds.....	—	—	—	3,304
Total Transfers In	\$ 1,582	\$ 15,039	\$ 640	\$ 475,995

Transfers from major governmental funds to nonmajor governmental funds are primarily for capital facility construction and debt service expenditures. Transfers from the General Fund to nonmajor enterprise funds are primarily mineral lease royalties used to make loans and grants to local governments through the Community Impact Loan Fund. Transfers from nonmajor enterprise funds to the General Fund are mostly liquor profits from the Alcoholic Beverage Control Fund that are required by statute to be deposited in the General Fund. All other transfers are made to finance various programs as authorized by the Legislature.

During fiscal year 2003, the Legislature authorized the following transfers to subsidize lower than expected revenues:

- \$44.435 million from the Tobacco Endowment Fund (nonmajor governmental fund) to the General Fund.
- \$3.304 million from the internal service funds to the General Fund.

In addition, the Legislature authorized payments to certain component units of the State. These amounts are reported as expenditures in both the General Fund column of the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds and the Governmental Activities column of the Statement of Activities. They are also reported as revenues in the Component Units column of the Statement of Activities:

- \$607.55 million to the Colleges and Universities.
- \$2.916 million to the Comprehensive Health Insurance Pool.
- \$343 thousand to the Utah State Fairpark Corporation.

NOTE 14. SPECIAL ITEM

The Utah Technology Finance Corporation (nonmajor component unit) transferred \$2.685 million to the State of Utah as part of the Corporation's liquidation proceedings.

NOTE 15. LITIGATION, CONTINGENCIES, AND COMMITMENTS**A. Litigation**

The State is involved in various legal actions arising in the ordinary course of business. The State is vigorously contesting all of these matters, but as of this date it is not possible to determine the outcome of these proceedings. In the opinion of the Attorney General and management, the ultimate disposition of these matters will not have a material adverse effect on the State's financial position.

- Members of the Navajo Nation allege the State of Utah has mismanaged Navajo Nation Trust Fund monies. The plaintiffs are seeking an accounting of the legitimacy of the fund's receipts and disbursements, and damages. If the State were ultimately held liable, the estimated liability could be up to approximately \$50 million plus interest and attorneys' fees.
- A suit filed by the United Mine Workers of America claims the State Legislature wrongfully reallocated revenue generated from the *Utah Enabling Act's* Miners Hospital Grant lands to the University of Utah Medical Center. The plaintiffs seek a judgment requiring pay back of the diverted proceeds into a trust, and requiring the trust to be used only on a hospital for miners. If the State were ultimately held liable, the liability could range from \$1 million to \$35 million.
- A suit was filed by a landowner alleging breach of contract by the Utah State Armory Board and the Utah National Guard related to the sale of property. The plaintiff seeks damages of approximately \$19 million plus attorneys' fees.
- There are currently three separate suits or claims pending seeking refunds of taxes paid. In the event of adverse rulings on all of these issues, including their certification as class-action suits, the State estimates the liability could be as much as \$45 million.
- In addition to the items above, the State is contesting other legal actions totaling approximately \$22 million plus attorneys' fees and interest in some cases.

B. Contingencies

- Financial and compliance audits (Single Audit) of federal grants, contracts, and agreements were conducted under the provisions of the Federal Office of Management and Budget's circulars. As a result of the audits, identified questioned costs are immaterial. Other audit findings on noncompliance cannot be estimated as to the potential liability. The Single Audit for the fiscal year ended June 30, 2003, is in process and management expects proposed disallowances to be immaterial.

- Management's estimated liability for the Petroleum Storage Tank Trust (private purpose trust fund) is highly sensitive to change based on the short period of historical data and the uncertainties in estimating costs. Since it is not possible to determine the occurrence date of a leak in an underground storage tank, it is not possible to estimate the number or the associated costs of leaks that have not been detected.
- The Utah Department of Transportation (UDOT) plans on seeking reimbursement from the Federal Highway Administration (FHWA) for approximately \$20 million per year for fiscal years 2004 through 2007. The State received \$18.539 million in fiscal year 2003. The related costs were incurred by the State as a result of the I-15 reconstruction project and were originally paid using state funds. UDOT has not recorded an accounts receivable for these future reimbursement requests because the requests are contingent upon sufficient future federal funds and federal obligation authority becoming available and future approval by the FHWA.
- The State is totally self-insured against liability claims and up to \$2.5 million in property claims. According to an actuarial study and other known factors, \$43.659 million exists as either incurred but unfiled or unpaid claims. This amount is reported as a liability of the Administrative Services Risk Management Fund (internal service fund).
- The Utah School Bond Guaranty Act (*Utah Code Annotated, 1953*, as amended, Sections 53A-28-101 to 402), which took effect on January 1, 1997, pledges the full faith, credit, and unlimited taxing power of the State to guaranty full and timely payment of the principal and interest on general obligation bonds issued by qualifying local school boards. The primary purpose of the Guaranty Act is to reduce borrowing costs for local school boards by providing credit enhancement for Guaranteed Bonds.

In the event a school board is unable to make the scheduled debt service payments on its Guaranteed Bonds, the State is required to make such payments in a timely manner. For this purpose, the State may use any available monies, may use short-term borrowing from the State Permanent School Fund (part of the permanent Trust Lands Fund), or may issue short-term general obligation notes. The local school board remains liable to the State for any such payments on Guaranteed Bonds. Reimbursements to the State may be obtained by intercepting payment of state funds intended for the local school board. The State may also compel the local school board to levy a tax sufficient to reimburse the State for any guaranty payments.

The State Superintendent of Public Instruction is charged with monitoring the financial condition of local school boards and reporting, at least annually, its conclusions to the Governor, the Legislature, and the State Treasurer. The State Superintendent must report immediately any circumstances which suggest a local school board may not be able to pay its debt service obligations when due. The State does not expect that it will be required to advance monies for the payment of debt service on Guaranteed Bonds for any significant period of time.

Local school boards have \$1.414 billion principal amount of Guaranteed Bonds outstanding at June 30, 2003. The State cannot predict the amount of bonds that may be guaranteed in future years, but no limitation is currently imposed by the Guaranty Act.

- The Attorney General of the State sued the tobacco industry for medical costs related to smoking. The State of Utah has signed on to a master settlement agreement along with 45 other states. The major tobacco manufacturers and most smaller manufacturers have joined the agreement. The State received \$32.643 million from tobacco companies in fiscal year 2003 and expects to receive approximately \$27.004 million in fiscal year 2004. Annual payments are expected to continue for the next seven years but will be adjusted for factors such as inflation, decreased sales volume, previously settled law suits, disputed payments, and legal fees.

C. Commitments

- At June 30, 2003, the Industrial Assistance Program of the General Fund had grant commitments of \$11.7 million, contingent on participating companies meeting certain performance criteria.
- Utah Retirement Systems (pension trust funds) has at its yearend December 31, 2002, committed to fund certain alternative investment partnerships and real estate projects for an amount of \$1.829 billion. Funding of \$1.168 billion has been provided, leaving an unfunded commitment of \$661 million as of December 31, 2002, which will be funded over the next six years.
- As of June 30, 2003, the Utah Housing Corporation (component unit) has committed to purchase mortgages under the Single-Family Mortgage Purchase Program in the amount of \$12.727 million.
- At June 30, 2003, the enterprise funds had loan commitments of approximately \$109.9 million and grant commitments of approximately \$13.8 million.
- At June 30, 2003, the Utah Higher Education Assistance Authority Student Loan Guarantee Program (Student Assistance Programs, enterprise fund) had guaranteed student loans outstanding with an original principal amount of approximately \$1.716 billion. Also, at June 30, 2003, the Student Assistance Programs had commitments to purchase approximately \$365 million in student loans and provide approximately \$10.9 million in reductions to borrower loan balances.
- At June 30, 2003, the Department of Transportation had construction and other contract commitments of \$409.697 million, of which \$244.902 million is for Centennial Highway Fund (special revenue fund) projects and \$164.795 million is for Transportation Fund (special revenue fund) projects. These commitments will be funded with bonded debt and future appropriations.

NOTE 16. JOINT VENTURE

The Utah Communications Agency Network (UCAN) was created by the State Legislature in 1997 as an independent agency. Its purpose is to provide public safety communications services and facilities on a regional or statewide basis.

UCAN's governing board consists of ten representatives elected by the board, and five state representatives of which four are appointed by the Governor. The State has contracted to purchase

communication services from UCAN to meet the needs of law enforcement officers in the Departments of Public Safety, Corrections, Natural Resources, and other smaller state agencies.

In fiscal year 1998 the State provided startup capital of \$185 thousand. UCAN receives federal funds as a subrecipient of grants awarded to the Department of Public Safety. UCAN also may receive legal counsel from the Attorney General's Office at no cost. Contracts with state agencies are estimated to provide over 30 percent of UCAN's operating revenues.

UCAN has \$12.865 million of revenue bonds outstanding. UCAN's debt is not a legal obligation of the State; however, if UCAN cannot meet its debt service requirements, state law allows the Governor to request an appropriation to restore the debt service reserve fund to its required level or to meet any principal or interest payment deficiency. The Legislature is not required to make any such appropriation, but if made, UCAN must repay the State within 18 months. To date, UCAN has never requested any such funding from the State and has had sufficient resources to cover its debt service and debt service reserve requirements.

The State Auditor's Office audits UCAN's financial statements. Copies of those statements can be obtained from UCAN's administrative office or from the State Auditor's Office.

NOTE 17. PENSION PLANS

Eligible employees of the State are covered by one of the following retirement plans:

A. Utah Retirement Systems

Utah Retirement Systems (URS) was established by Section 49 of *Utah Code Annotated, 1953*, as amended. URS administers the pension systems and plans under the direction of the URS Board, which consists of the State Treasurer and six members appointed by the Governor. URS has a separate accounting system and prepares a separately issued financial report covering all retirement systems and deferred compensation plans administered by it. URS maintains records and prepares separately issued financial statements using fund accounting principles and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Revenues, including contributions, are recorded in the accounting period in which they are earned and become measurable. URS reports on a calendar yearend. The December 31, 2002, financial report has been included in this Comprehensive Annual Financial Report as a pension trust fund for the Public Employees Retirement System (PERS) within the fiduciary funds. Copies of the separately issued financial report that include financial statements and required supplemental information may be obtained by writing to Utah Retirement Systems, 560 East 200 South, Salt Lake City, Utah 84102, or by calling 1-800-365-8772.

The URS operations are comprised of the following groups of systems and plans covering substantially all employees of the State, public education, and other political subdivisions of the State:

- The Public Employees Contributory Retirement System (Contributory System); the Public Employees Noncontributory Retirement System (Noncontributory System); and the Fire-

- fighters Retirement System, which are defined-benefit multiple-employer, cost-sharing, public employee retirement systems;
- The Public Safety Retirement System, which is a defined-benefit mixed cost-sharing and agent, multiple-employer retirement system;
 - The Judges Retirement System and the Governors and Legislative Pension Plan, which are defined-benefit single-employer public employee retirement systems; and

- The 401(k) and 457 Plans, which are deferred compensation plans.

Retirement benefits are specified by Section 49 of *Utah Code Annotated, 1953*, as amended. The retirement systems are defined-benefit plans in which the benefits are based on age and/or years of service and highest average salary. Various plan options within the systems may be selected by retiring members. Some of the options require actuarial reductions based on attained age, age of spouse, and similar actuarial factors. A brief summary of eligibility for and benefits of the systems is provided in the following table:

Summary of Eligibility and Benefits

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System
Highest Average Salary	Highest 5 Years	Highest 3 Years	Highest 3 Years		Highest 2 Years
Years of Service	30 years any age	30 years any age	20 years any age		25 years any age
Required and/or Age	*20 years age 60	*25 years any age	10 years age 60		*20 years age 55
Eligible for Benefit	*10 years age 62 4 years age 65	*20 years age 60 *10 years age 62 4 years age 65	4 years age 65		10 years age 62 6 years age 70
Benefit Percent per Year of Service	1.25% to June 1975 2.00% July 1975 to present	2.00% per year	2.50% per year up to 20 years 2.00% per year over 20 years Benefit cannot exceed 70% of final average salary		5.00% first 10 years 2.25% second 10 years 1.00% over 20 years Benefit cannot exceed 75% of final average salary

*With actuarial reductions

Former governors at age 65 receive \$1,080 per month per term. Legislators receive a benefit actuarially reduced at age 62 with ten or more years of service, or an unreduced benefit at age 65 with four or more years of service at the rate of \$24.00 per month per year of service. Both the governors' and legislators' benefits are adjusted based on the Consumer Price Index (CPI), limited to 4 percent of the base benefit per year.

Death benefits for active and retired employees are in accordance with retirement statutes. Upon termination of employment, members of the systems may leave their retirement account intact for future

benefits based on vesting qualification, or withdraw the accumulated funds in their individual member account and forfeit service credits and rights to future benefits upon which the contributions were based.

As a condition of participation in the systems, employers and/or employees are required to contribute certain percentages of salaries and wages as authorized by statute and specified by the Board. Employee contributions may be paid in part or in whole by the employer. Contributions in some systems are also augmented by fees or fire insurance taxes. Below is a summary of system participants.

Participants
December 31, 2002

	Contributory System	Non- contributory System	Public Safety System	Fire- fighters System	Judges System	Governors and Legislative Pension Plan
Number of participating:						
Employers	164	376	119	40	1	1
Members:						
Active	3,649	82,486	6,966	1,538	103	91
Terminated vested.....	1,511	20,632	987	55	8	87
Retirees and beneficiaries:						
Service benefits	7,249	20,666	2,678	815	77	231
Disability benefits	153	—	43	70	—	—

Employer contribution rates consist of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by the members during the current year) and (2) an amount for amortization of the unfunded, or excess funded actuarial accrued liability over an open 20 year amortization period. These rates are determined using the entry age actuarial cost method with a supplemental present value and the same actuarial assumptions used to calculate the actuarial accrued liability.

The following table presents the State of Utah's actuarially determined employer contributions required and paid to URS. These amounts are equal to the annual pension costs for each of the stated years and all of these amounts were paid for each year. Accordingly, the net pension obligation (NPO) at the end of each year was zero. For the Governors and Legislative Pension Plan, there has been no annual pension cost, required contributions, or NPO because the plan was overfunded for each of these years.

State of Utah's Employer Contributions
Required and Paid
For Fiscal Years Ended June 30
(Expressed in Thousands)

	Contributory System	Non- contributory System	Public Safety System	Fire- fighters System	Judges System	Total All Systems
Primary Government:						
2003	\$ 3,683	\$ 60,033	\$ 16,713	\$ 47	\$ 539	\$ 81,015
2002	\$ 5,777	\$ 93,037	\$ 25,921	\$ 58	\$ 928	\$ 125,721
2001	\$ 4,902	\$ 78,752	\$ 19,772	\$ 56	\$ 1,615	\$ 105,097
2000	\$ 4,943	\$ 75,769	\$ 19,717	\$ 70	\$ 1,572	\$ 102,071
1999	\$ 5,005	\$ 72,361	\$ 17,075	\$ 67	\$ 1,868	\$ 96,376
Component Units:						
Colleges and Universities:						
2003	\$ 1,840	\$ 29,409	\$ 375	\$ —	\$ —	\$ 31,624
2002	\$ 1,904	\$ 28,028	\$ 399	\$ —	\$ —	\$ 30,331
2001	\$ 2,398	\$ 33,575	\$ 442	\$ —	\$ —	\$ 36,415
2000	\$ 2,469	\$ 32,839	\$ 445	\$ —	\$ —	\$ 35,753
1999	\$ 2,457	\$ 30,789	\$ 356	\$ —	\$ —	\$ 33,602
Other:						
2003	\$ 44	\$ 1,609	\$ —	\$ —	\$ —	\$ 1,653
2002	\$ 43	\$ 258	\$ —	\$ —	\$ —	\$ 301
2001	\$ 50	\$ 352	\$ —	\$ —	\$ —	\$ 402
2000	\$ 143	\$ 2,416	\$ —	\$ —	\$ —	\$ 2,559
1999	\$ 134	\$ 2,158	\$ —	\$ —	\$ —	\$ 2,292
Total Primary Government and Component Units:						
2003	\$ 5,567	\$ 91,051	\$ 17,088	\$ 47	\$ 539	\$ 114,292
2002	\$ 7,724	\$ 121,323	\$ 26,320	\$ 58	\$ 928	\$ 156,353
2001	\$ 7,350	\$ 112,679	\$ 20,214	\$ 56	\$ 1,615	\$ 141,914
2000	\$ 7,555	\$ 111,024	\$ 20,162	\$ 70	\$ 1,572	\$ 140,383
1999	\$ 7,596	\$ 105,308	\$ 17,431	\$ 67	\$ 1,868	\$ 132,270

The following schedule summarizes contribution rates in effect at December 31, 2002:

Contribution Rates as a Percent of Covered Payroll

System	Member	Employer	Other
Contributory	6.00%	4.68% – 5.91%	—
Noncontributory.....	—	8.69% – 10.40%	—
Public Safety:			
Contributory.....	10.50% – 13.74%	2.17% – 15.50%	—
Noncontributory.....	—	13.89% – 28.27%	—
Firefighters:			
Group A	7.82%	—	8.88%
Group B	7.83%	—	8.88%
Judges	4.92%	4.92%	18.40%
Governors and Legislative	—	—	—

401(k) and 457 Deferred Compensation Plans

The 401(k) Plan and 457 Plan administered by URS, in which the State participates, are deferred compensation plans. These plans are available as supplemental plans to the basic retirement benefits of the retirement systems for employees of employers which have adopted the 401(k) and 457 Plans. Voluntary contributions may be made into the plans subject to plan and Internal Revenue Code limitations. Employer contributions may be made into the plans at rates determined by the employers. There are 331 employers participating in the 401(k) Plan and 154 employers participating in the 457 Plan. There are 122,125 plan participants in the 401(k) Plan and 10,325 participants in the 457 Plan.

After termination of employment, benefits are paid out to individuals in lump sum, or as periodic benefit payments, at the option of the participant based on individual account balances and plan provisions. The 401(k) and 457 Plans account balances are fully vested to the participants at the time of deposit. Investments of the plans are reported at fair value.

Employees of the State are eligible to participate in the deferred compensation 401(k) Plan. The State and participating employers are required to contribute to employees who participate in the noncontributory retirement plan. The State contributes 1.5 percent of eligible employees' salaries which amount vests immediately. The amounts contributed to the 401(k) Plan during the year ended

June 30, 2003, by employees and employers are as follows: for Primary Government, \$30.704 million and \$9.783 million; for Component Units – Colleges and Universities, \$3.229 million and \$4.043 million; for Component Units – Other, \$774 thousand and \$472 thousand; and the combined total for all is \$34.707 million and \$14.298 million, respectively.

Pension Receivables and Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Mortgages have been valued on an amortized cost basis which approximates market or fair value. The fair value of real estate investments has been estimated based on independent appraisals. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, have determined the fair value for the individual investments. Approximately 10 percent of the net assets held in trust for the pension benefits are invested in debt securities of the U.S. Government and its instrumentalities. Of the 10 percent, approximately 4 percent are U.S. Government debt securities and 6 percent are debt securities of the U.S. Government instrumentalities. The systems and plans have no investments of any commercial or industrial organization whose market value equals 5 percent or more of the net assets available for benefits. The principal components of the receivables and investment categories are presented below.

Pension Receivables and Investments
(Expressed in Thousands)

	Contributory System	Non- contributory System	Public Safety System	Fire- fighters System	Judges System	Governors and Legislative Pension Plan	401(k) Plan	457 Plan	Total December 31, 2002
Receivables:									
Member Contributions	\$ 404	\$ —	\$ 170	\$ 201	\$ —	\$ —	\$ —	\$ —	\$ 775
Employer Contributions.....	367	17,544	1,603	1	310	—	—	—	19,825
Court Fees and Fire Insurance Premium	—	—	—	—	21	—	—	—	21
Investments	8,006	101,359	12,566	5,160	844	100	26,813	—	154,848
Total Receivables	<u>\$ 8,777</u>	<u>\$ 118,903</u>	<u>\$ 14,339</u>	<u>\$ 5,362</u>	<u>\$ 1,175</u>	<u>\$ 100</u>	<u>\$ 26,813</u>	<u>\$ 0</u>	<u>\$ 175,469</u>
Investments:									
Debt Securities	\$ 168,725	\$ 2,136,006	\$ 264,812	\$ 108,759	\$ 17,788	\$ 2,106	\$ 568,585	\$ 71,544	\$ 3,338,325
Equity Investments	399,834	5,061,783	627,543	257,733	42,155	4,992	682,792	78,152	7,154,984
Venture Capital	47,649	603,219	74,785	30,715	5,024	595	—	—	761,987
Real Estate	70,276	889,679	110,300	45,301	7,409	877	—	—	1,123,842
Mortgage Loans.....	249	3,154	392	161	26	3	—	—	3,985
Invested Securities									
Lending Collateral	85,494	1,082,326	134,183	55,110	9,014	1,067	45,934	5,444	1,418,572
Investment Contracts	—	—	—	—	—	—	35,115	21,920	57,035
Total Investments	<u>\$ 772,227</u>	<u>\$ 9,776,167</u>	<u>\$ 1,212,015</u>	<u>\$ 497,779</u>	<u>\$ 81,416</u>	<u>\$ 9,640</u>	<u>\$ 1,332,426</u>	<u>\$ 177,060</u>	<u>\$ 13,858,730</u>

Actuarial Methods and Assumptions

The latest actuarial valuation and study was dated January 1, 2002. The actuarial accrued liability and schedule of funding progress is presented by the retirement systems for the last ten years in their separately presented financial reports based on the report generated by that study conducted by Gabriel, Roeder, Smith & Company. The actuarial value of assets for that date is based on a smoothed expected investment income rate. Investment income in excess or shortfall of the expected 8 percent return on fair value is smoothed over a five-year period with 20 percent of a year's excess or

shortfall being recognized each year, beginning with the current year. All systems use the entry age actuarial cost method and the level percent of payroll amortization method. The remaining amortization period for all systems is open group, 20 years, closed period. An inflation rate of 3 percent is used for all systems. Post retirement cost of living adjustments are non-compounding and are based on the original benefit. The adjustments are also limited to the actual CPI increase for the year with any unusual CPI increase not met carried forward to subsequent years. Below is the Schedule of Funding Progress.

(Table presented on next page)

Schedules of Funding Progress
By Valuation Date
(Expressed in Thousands)

	Contributory System	Noncontributory System	Public Safety System	Firefighters System	Judges System	Governors and Legislative Pension Plan
Actuarial Value of Assets:						
January 1, 2001.....	\$ 924,573	\$ 10,361,333	\$ 1,286,996	\$ 536,503	\$ 87,139	\$ 11,569
January 1, 2002.....	\$ 927,523	\$ 11,104,334	\$ 1,376,466	\$ 569,151	\$ 92,649	\$ 11,710
December 31, 2002.....	\$ 859,358	\$ 10,888,518	\$ 1,349,458	\$ 553,589	\$ 90,904	\$ 10,719
Actuarial Accrued Liability (AAL):						
January 1, 2001.....	\$ 935,799	\$ 9,933,514	\$ 1,206,876	\$ 455,456	\$ 73,962	\$ 7,908
January 1, 2002.....	\$ 948,912	\$ 10,806,024	\$ 1,366,134	\$ 491,274	\$ 85,987	\$ 8,182
December 31, 2002.....	\$ 975,288	\$ 11,628,203	\$ 1,473,862	\$ 530,155	\$ 93,397	\$ 8,108
Unfunded Actuarial Accrued Liability (UAAL):						
January 1, 2001.....	\$ 11,226	\$ (427,819)	\$ (80,120)	\$ (81,047)	\$ (13,177)	\$ (3,661)
January 1, 2002.....	\$ 21,389	\$ (298,310)	\$ (10,332)	\$ (77,877)	\$ (6,662)	\$ (3,528)
December 31, 2002.....	\$ 115,930	\$ 739,685	\$ 124,404	\$ (23,434)	\$ 2,493	\$ (2,611)
Funding Ratios:						
January 1, 2001.....	98.8%	104.3%	106.6%	117.8%	117.8%	146.3%
January 1, 2002.....	97.7%	102.8%	100.8%	115.9%	107.7%	143.1%
December 31, 2002.....	88.1%	93.6%	91.6%	104.4%	97.3%	132.2%
Annual Covered Payroll:						
January 1, 2001	\$ 141,067	\$ 2,659,200	\$ 247,985	\$ 63,274	\$ 10,397	\$ 464
January 1, 2002	\$ 142,882	\$ 2,832,060	\$ 260,783	\$ 67,192	\$ 10,927	\$ 556
December 31, 2002.....	\$ 142,325	\$ 2,926,449	\$ 268,478	\$ 71,354	\$ 11,173	\$ 556
UAAL as a Percent of Covered Payroll:						
January 1, 2001.....	8.0%	(16.1)%	(32.3)%	(128.1)%	(126.7)%	(789.0)%
January 1, 2002.....	15.0%	(10.5)%	(4.0)%	(115.9)%	(61.0)%	(634.5)%
December 31, 2002.....	81.5%	25.3%	46.3%	(32.8)%	22.3%	(469.6)%

B. Teachers Insurance and Annuity Association

The Teachers Insurance and Annuity Association and/or College Retirement Equities Fund (TIAA-CREF), privately administered defined-contribution retirement plans, provide individual retirement fund contracts for each eligible participating employee. Eligible employees are mainly state college/university faculty and employees of the Student Assistance Programs. Benefits to retired employees are generally based on the value of the individual contracts and the

estimated life expectancy of the employee at retirement and are fully vested from the date of employment. The total current year required contribution and the amount paid is 14.2 percent of the employee's annual salary. Most of the employers contribute both the employer and the employee share of 7.1 percent. The State has no further liability once annual contributions are made.

The following table presents the State of Utah's actual employer contributions to the TIAA-CREF retirement system:

State of Utah's Employer Contributions
For the Fiscal Years Ended June 30, 2002 and 2003
(Expressed in Thousands)

	Contribution Required and Paid 2002	Contribution Required and Paid 2003
Primary Government.....	\$ 572	\$ 700
Component Units:		
College and University	91,708	94,767
Total	<u>\$ 92,280</u>	<u>\$ 95,467</u>

NOTE 18. POSTEMPLOYMENT BENEFITS

At the option of the individual state departments, employees may be offered participation in a post retirement benefits program, as set forth in Section 67-19-14(2) of the *Utah Code*. In order to qualify, the employee must be eligible to receive retirement benefits. Upon retirement most employees, including those age 65 and over, may be paid for 25 percent of unused accumulated sick leave at the employee's current rate of pay. In addition, the employee may receive health and life insurance coverage up to age 65, but not to exceed five years. If the employee has not reached age 65 after the five-year limitation is reached, they may exchange one sick leave day in excess of 60 days, after the 25 percent payout, for one month of paid health and life insurance coverage, or after age 65 spouse health insurance to age 65, or Medicare supplemental insurance for the employee or spouse. As of June 30, 2003, there were 1,701 individuals on the program. The insurance coverage is paid 100 percent by the State for individuals retiring before July 1, 2000. Individuals retiring thereafter are required to pay between 2 and 7 percent of the cost depending on the coverage selected.

The State has recorded an estimated liability for current employees who will eventually retire in addition to an estimated liability for employees who have already retired. The estimated 25 percent sick leave payouts at retirement are included in the liability for compensated absences. The postemployment benefits liability includes the estimated liability for health and life insurance benefits. Charges to agency budgets are made on an ongoing basis to fund the current payments for these benefits and compensated absences. For the year ended June 30, 2003, the cumulative postemployment benefits liability was \$216.442 million, and \$15.104 million in postemployment benefits expenditures were recognized. In accordance with state law, accrued tax revenues are designated at yearend to fund post-employment benefits, compensated absences, and other liabilities. At June 30, 2003, net designated accrued taxes were \$299.799 million.

A liability is also reported in the Pension Trust Funds of \$1.594 million which will be liquidated by assets of Utah Retirement Systems

All employers who participate in the State Retirement Systems are eligible to participate in the Public Employees Long-term Disability Program per Section 49-21-201 of the *Utah Code*. Employees of those state agencies who participate in the program and meet long-term disability eligibility receive benefits for the duration of their disability up to the time they are eligible for retirement or until age 65. Benefits begin after a three-month waiting period and are paid 100 percent by the program. As of June 30, 2003, there are 327 state employees receiving benefits. The program is funded by paying premiums to the Public Employees Health Program (component unit), where assets are set aside for future payments. For the year ended June 30, 2003, the State paid \$4.002 million in premiums and the program has \$27.893 million in assets.

The colleges and universities offer early retirement incentives, as approved by their boards of trustees, which may provide health, dental, and life insurance; incentive pay or stipends; or long-term disability. Eligibility requirements differ, depending on the college or university. In general, the employee must be at least 52-60 years of age with a minimum of 15-16 years of service. Some of the colleges and universities also require that the sum of the employee's age and years of service be at least 75. The employee may receive these benefits up to age 65 but not to exceed 5-7 years. The ranges for incentive and stipend pay are from 14.28 percent to 30 percent of the employee's salary upon retirement. The benefits are funded on a pay-as-you-go basis. As of June 30, 2003, there are 470 individuals participating in the programs, and \$6.673 million was expended during the year. The total liability for postemployment benefits and compensated absences for the college and universities at June 30, 2003, was \$67.868 million. The postemployment benefits portion of the cumulative liability was \$17.655 million.

NOTE 19. RISK MANAGEMENT AND INSURANCE

It is the policy of the State of Utah to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. This is accomplished by the State through the Risk Management (internal service fund) and the Public Employees Health Program (component unit). The State is the predominant participant in these programs. The Risk Management Fund manages the general property and liability risk of the State, and the Public Employees Health Program manages the health insurance programs of the State. The University of Utah and Utah State University (component units) each maintain self-insurance funds to manage health care. The University of Utah also maintains self-insurance funds to manage auto/physical damage, and medical malpractice liabilities.

The State has determined that the risk funds can economically and effectively manage the State's risks internally and have set aside assets for claim settlement. The risks are covered through reserves and commercial insurance for excessive losses. The State has not had any losses or settlements that exceeded the commercial excess insurance coverage for any of the last three years. The risk funds service all claims for risk of loss to which the State is exposed, including general liability, property and casualty, group medical and dental, and some environmental claims. They also service the general risk claims for many local school districts and local health departments within the State. All funds, agencies, and public authorities of the State may participate in the State's Risk Management and Public Employees Health Program. The risk funds allocate the cost of providing claims servicing, claims payment, and commercial insurance by charging a "premium" to each agency, public authority, or employee, based on each organization's estimated current year liability and property values. The liability is determined using an independent actuarial study based on past, current, and estimated loss experiences.

Risk Management and Public Employees Health Program claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated and include an amount for claims that have been incurred but not reported. Because actual claims liabilities are affected by complex factors including inflation, changes in legal doctrines and insurance benefits, and unanticipated damage awards, the process used in computing claims liabilities does not necessarily result in exact amounts. Claims liabilities are recomputed periodically by actuaries to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Inflation is included in this calculation because reliance is based on historical data that reflects past inflation and other appropriate modifiers. Public Employees Health Program long-term disability benefit reserves are reported using a discount rate of 7 percent. The primary government and the discrete component units of the State paid premiums to Public Employees Health Program of \$163.89 million and \$9.0 million, respectively, for health and life insurance coverage in fiscal year 2003. In addition, the State Department of Health paid \$19.84 million in premiums for the Children's Health Insurance Program.

The State covers its workers' compensation risk by purchasing insurance from Workers' Compensation Fund (a related organization). The University of Utah and Utah State University report claims liabilities if it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The University of Utah and the University Hospital have a "claims made" umbrella malpractice insurance policy in an amount considered adequate by its respective administrations for catastrophic malpractice liabilities in excess of the trusts' fund balances. Amounts for the current year are included below.

The following table presents the changes in claims liabilities balances (short-and long-term combined) during fiscal years ended June 30, 2002, and June 30, 2003:

Changes in Claims Liabilities
(Expressed in Thousands)

	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management:				
2002	\$ 44,327	\$ 16,730	\$ (14,243)	\$ 46,814
2003	\$ 46,814	\$ 5,674	\$ (8,829)	\$ 43,659
Public Employees Health Program:				
2002	\$ 74,399	\$ 292,401	\$(286,905)	\$ 79,895
2003	\$ 79,895	\$ 341,365	\$(341,006)	\$ 80,254
College and University Self-Insurance:				
2002	\$ 19,398	\$ 100,036	\$ (91,576)	\$ 27,858
2003	\$ 27,858	\$ 107,289	\$(100,147)	\$ 35,000

NOTE 20. SUBSEQUENT EVENTS

The Student Assistance Programs issued additional Student Loan Revenue Bonds under the authority of the 1988 Revenue Bonds General Indenture, Eleventh Supplemental Indenture in the amount of \$43.35 million dated August 21, 2003. The 2003 Series V Bonds are limited obligations secured by and payable solely from the Trust Estate established under the Indenture pursuant to which the 2003 Series V Bonds are issued.

Subsequent to June 30, 2003, the Department of Corrections and the Division of Facilities, Construction and Management entered into a 20 year capital lease for approximately \$6.2 million at 4.7 percent. Proceeds of lease will fund the installation of an energy efficiency control system at the Draper prison.

Subsequent to June 30, 2003, the Utah Housing Corporation (major component unit) issued \$19.58 million Single Family Mortgage

Purchase Variable Rate Bonds, 2003 Series D, maturing on July 1, 2014, 2023, 2024, and 2033, and January 1, and July 1, 2034, interest at a variable rate adjusted weekly, and issued \$5.42 million Single-Family Mortgage Purchase Fixed Rate Bonds, 2003 Series D, maturing on July 1, 2005 through 2013, interest rates of 1.70 percent to 3.80 percent.

Salt Lake Community College (a nonmajor component unit) has a ten-year operating lease commitment, expiring September 30, 2011, for use of the Metro Center building in downtown Salt Lake City with future lease payments totaling \$5.23 million. In August 2003, Salt Lake City condemned the facility due to safety concerns with the structure of the building. As of September 2003, the College began withholding monthly lease payments and is pursuing a legal resolution regarding its future financial commitments for the building.